Hainan — State, Society, and Business in a Chinese Province

Kjeld Erik Brødsgaard

China Policy Series

Hainan – State, Society, and Business in a Chinese Province

This book examines the complex relationship between the state, society, and business in China, focusing on the experience of the island province of Hainan. This island, for many years a provincial backwater, was given provincial rank in 1988 and became the testing ground for experiments of an economic, political, and social nature that have received great attention from Beijing, in particular the "small government, big society" project. This book provides a full account of this transition, showing how Hainan casts important light on a number of highly topical issues in contemporary China studies: central–local relations, institutional reform, state–society relations, and economic development strategies. It provides detailed evidence of how relations between party cadres, state bureaucrats, businesses, foreign investors, and civil society play out in practice in China today. It argues that despite the liberalization of recent years, especially in the economic sphere, the party state remains the most powerful actor in Chinese society, and that path-breaking reform experiments such as in Hainan remain highly vulnerable due to the central government's hesitation to commit the resources and unequivocal political support needed for the experiments to be successfully realized.

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Kjeld Erik Brødsgaard

1 Introduction

A study of Hainan is important for several reasons. Those highlighted in this study touch on the following fields:

1 central–local relations,
2 institutional reform,
3 state–society relations, and
4 economic development strategies.

In recent years, a considerable number of studies in the field of Chinese studies have descended below the national level to focus on the regional or provincial level and the interplay of central–local relations. Provinces in China equal the size of large European countries and they are important economic and political units. They have government structures and party set up that, although linked to the national polity, have considerable autonomy. Provinces also conduct their own foreign economic relations in order to develop their export sector and attract Foreign Direct Investment (FDI). Some of the southern provinces are host to Special Economic Zones (SEZs), designed to attract foreign technology and FDI. In recent years, a wealth of material, including provincial yearbooks and provincial statistical yearbooks, has become available, facilitating sub-national research.[1] As a result, a number of important studies on the provinces and the interplay of central–local relations have emerged.[2] Although there has been a revival of interest in taking the province as a unit of research, a full-scale study of Hainan has not yet been attempted.[3]

This is unfortunate, as Hainan not only provides a good case study but, as a relatively new province, it provides the foundation for a discussion and deliberation of the formation of a new sub-national administrative unit. Thus, the Hainan case sheds light on the decision-making processes in China and on how the center and localities interplay in making decisions.

Institutional reform is currently a much debated issue in China. The goal is to create a leaner and much more efficient public sector. To achieve this objective, it is necessary to define the core functions of the state and its governing organs. Functions that are not essential should be discarded and given back to society.[4] This involves a downsizing of the bureaucracy. However, displaced bureaucrats are prone to seek to regain their former position and the party is often reluctant to create a better public administration at the expense of party control. Hainan constitutes a good example of the issues involved. Here, extensive experiments with public sector reform under the slogan of "small government, big society" have been carried out. An analysis of the Hainan reform experiment will provide a good background for evaluating current efforts at institutional reform in China.[5]

The study of state–society relations has been at the center of much China-related research since the early 1990s. The focus has clearly been on the society aspect of this dichotomy, stimulating a plethora of studies on civil society and non-governmental organizations.[6] Here the Hainan reform experiment of "small government, big society" becomes important. Even though Liao Xun and early Hainan reformers did not originally use the concept civil society they were advocating the creation of a wealth of associations that should take over many of the functions formerly handled by the state and thereby in fact enlarging the scope of civil society. However, the trajectory of the reform process in Hainan illustrates that, in the Chinese case, state and civil society should not be regarded as opposites – they are in fact each the precondition of the other. In sum, there is a blurring of the line between state and civil society in the Chinese case. This has important comparative and theoretical implications.

When Hainan was established, it was under the slogan of "small government, big society." The slogan denoted an attempt to experiment with political reform. If successful, these reforms might be extended nationally. Thus, Hainan also provides insight on the experimental nature of Chinese reform. Agricultural reform started in Anhui province in late 1978 and industrial reform in Sichuan province in the same year. When these reforms proved their viability, they were extended to the national level. The Hainan reform experiment was supposed to have the same function. In fact, for the reformers in the Chinese leadership an important part of the decision to establish a provincial-level SEZ on Hainan was to implement "ahead of time experiments" (*chaoqian shiyan*) for economic and political reform. It was also believed that since Hainan has a fairly isolated location, off the coast of Guangdong, it would be easier to contain any possible negative consequences of reform.

China's economic development strategies used to be a topic subjected to considerable research in China as well as abroad. In the 1980s, there was a focus on issues such as light industry versus heavy industry, the relationship between accumulation and consumption in economic development, and the role of prices in resource allocation.[7] With the establishment of the first special economic zone in 1980 and, a few years later, the introduction of 14 open coastal cities and growing trade, China's economic relations to the outside world also became popular research topics.[8] It has often been argued that the Chinese development growth strategy could be characterized as incremental and that China was growing out of the plan rather than abandoning the old structures in one go.[9] However, in Hainan one saw attempts to short-circuit the development process by accelerating the introduction of market forces and by selecting and designing special areas such as Yangpu that should spearhead the development process. The decision to change Hainan into a special economic zone in 1988 can also be seen as the center's way of accelerating the process. In other provinces, the center conducted more of a hands-off policy. In sum, the decision to establish the zone sheds an interesting light on the various ways the authorities have tried to push for economic development.

There is a growing literature on the so-called disintegration of China.[10] The underlying assumption of this literature is that China is coming apart. It is argued that the Chinese Communist Party has lost its legitimacy and is bound to wither away as the central political force uniting China.[11] The disintegration thesis also points to a growing disintegration of China caused by provinces and regions that increasingly operate on their own. The concept of deconstruction has been used to describe this trend.[12] There is no doubt that the developments in China since the mid-1980s have generated centrifugal forces in the form of private entrepreneurs, new social organizations and other forms of non-governmental development. In the provinces some regions have developed faster than others creating imbalances and conflict. However, there has been no regime breakdown and the party is still in power. In fact the party has shown an amazing ability to adapt.[13] An increasing regional autonomy has evolved as part of the economic reform process, but as the Hainan case in this book shows, it is highly debatable whether this autonomy really involved a diminution of the power and authority of the central government.

In sum, this study uses Hainan as a case to address important issues in the contemporary China field such as central–local relations, institutional reform, state–society relations, and economic development strategies. The findings also have implications for the discussion on whether China is likely to hold together or whether new centrifugal forces, generated by economic reform and institutional change, will lead to the disintegration or deconstruction of the Chinese party–state.

Outline of the book

Chapter 2 sketches in broad strokes the history of Hainan as well as the geographical and demographical background. The island was incorporated into China during the Han dynasty, but for long periods of time the Chinese had difficulties ruling the island and its Li majority population. Despite its favorable climate and rich natural resources, Hainan remained a far-away place that rarely received the attention of the imperial rulers on the mainland. In 1912 Sun Yatsen suggested elevating the island to the status of a province. The proposal did not gain support and Hainan remained part of

Guangdong Province. After 1949, Hainan was regarded as an important front line in China's defense. The island was also important in terms of natural resources. Hainan's rubber production was of particular strategic importance, but the center in Beijing also needed Hainan's iron ore as well as its sugar and salt production.

However, after Mao's death and the introduction of reform and opening up policies, reform-oriented leaders in Beijing began to realize that perhaps Hainan's potential could be better exploited by giving the island more autonomy in administrative and economic terms. On several occasions, Deng Xiaoping voiced strong support for turning Hainan into a new economic dragon. He was convinced that given the right circumstances Hainan would be able to catch up with Taiwan in just 20 years.

Chapter 3 analyzes the decision to turn Hainan into a province and an SEZ. China had already in 1979 decided to establish four special economic zones. Although Hainan was not among these zones, a number of policies and measures were introduced from the early 1980s that in fact gave Hainan the same authority in foreign trade and investment that had previously been given to Shenzhen and the other SEZs. In spite of the so-called "Hainan Car Scandal" in 1985, which indicated widespread corruption on Hainan, important national leaders continued to support the idea of rapid economic development on Hainan, and they realized that this would entail allocating more decision-making power to local officials.

The debates among the central leaders is fascinating reading as they give an impression of the incremental nature of the Chinese decision-making process. They also show that often experts are called in to give advice. In the Hainan case a group of scholars, headed by the noted economist Liu Guoguang, were given the task of coming up with a plan for the future development of Hainan. At the same time, the debate also illustrates the dominant role of party elders, *in casu* Deng Xiaoping, in framing the issues to be discussed. Relying on Deng's support, General Secretary Zhao Ziyang was able to silence the opponents of the Hainan reform plans, and on April 13, 1988, the National People's Congress finally passed a decision giving Hainan provincial status as well as deciding to establish an SEZ on the island.

The Tiananmen debacle and the subsequent strengthening of conservative forces in the Chinese leadership had important consequences for Hainan. Liang Xiang, Hainan's reform-oriented governor, lost his position and new leaders were appointed who were less eager to implement far-reaching political and economic reform. These leadership issues are addressed at the end of Chapter 3. It shows that almost all of Hainan's top leaders have been imported from the mainland. The center has been very reluctant to loosen its grip on personnel appointment at the top-level in Hainan, and very few locals have been able to enter the provincial-level leading bodies of the island.

However, in spite of political setbacks, Hainan's economy grew rapidly following the decision to establish the new province. Chapter 4 deals with Hainan's economic development all the way up to the year 2005. There was a kind of "Hainan fever" at the beginning of the 1990s with high internal Chinese investment as well as substantial foreign direct investment. The private sector also grew rapidly and Hainan moved up the ladder to become one of China's most dynamic provinces. The chapter also illustrates that in spite of rapid economic development of the private sector, the state retained its dominance. In the industrial sector the state continued to control the mining complex of Shilu and in the agricultural sector the state farms continued to dominate. Thus rubber production remained under state control and was shipped to the mainland to be processed in factories there.

It soon became apparent that the high growth rates stemmed mainly from huge investment in the property development sector, stimulated by huge bank loans. When speculation in this sector was stopped in 1993–94 the bubble burst and Hainan entered a period of economic stagnation. The economy has only recently begun to pick up speed again. Thus from 1993–94 Hainan was no longer at the cutting edge of economic development in China. At the same time new development areas, such as Pudong New Area, began to attract the attention of the central government.

As shown in Chapter 5, the same picture appears with regard to foreign trade and investment. One of the main goals behind Hainan's establishment as an SEZ was to attract FDI in order to promote economic growth. The State Council in 1988 promulgated a set of regulations that specified a range of preferential treatment for foreign investors in terms of tax exemptions and tax deductions as well as tax holdings. In 1991, the Hainan Provincial Government issued a new set of regulations that further specified the kind of preferential treatment that would be applicable to foreign enterprises investing in Hainan. They included the power to decide on the number of staff and workers to be employed and to independently decide on plans for production, marketing and financial affairs, including wages, allowances and bonuses. Free flow of materials and funds were supplemented by the free flow of people, and foreigners could obtain on-the-spot entry visas upon landing at the airport in Haikou. In spite of these liberal policies FDI fell dramatically in 1994 and has only recently picked up again. A similar picture emerges from a study of Hainan's trade with the outside world. By the late 1990s, Hainan had lost its competitive edge and began to resemble more an inland province rather than one of the thriving coastal provinces.

Chapter 6 is an account of Yangpu Economic Development Zone. This development zone, within the larger special economic zone of Hainan, was originally presented as a core element of Hainan's economic development strategy in August 1988. The establishment of Yangpu Economic Development Zone was based on a decision to allow foreign investors to lease land according to contract for a period of 70 years. The investor was given full autonomy in economic matters such as those concerning production, management, export, etc. This was not the first time permission had been given to lease land to foreigners. However, in none of these cases was the size of land being leased nearly as large as in Yangpu. The decision to allow long-term leasing of land to foreigners caused considerable debate. The critics argued that the land–lease plan was a case of national betrayal and humiliation. It sharpened the criticism when the first company that wished to lease land was a Japanese company – Kumigai Gumi. In terms of business environment Yangpu represented one of the most attractive incentive packages for foreign companies in China. This included a free flow of people, funds, and materials that could not be matched by any other economic development zone in China at the time. The granting of transferable land-use right for up to 70 years was also extremely attractive to foreign enterprises. The Yangpu project was approved by the provincial authorities but only officially opened in 1993. The reason for the delay was that the political turmoil in 1989 required the full attention of Beijing and only after Deng's Southern Inspection Tour in 1992 were reform policies again given priority.

Chapter 7 addresses the topic that has made the Hainan reform experiments well-known in China and abroad: "small government, big society." The origin of the concept is traced back to Liao Xun who argued that government should be reduced in terms of functions and personnel. The government structure that was introduced in Hainan in 1988, following the establishment of the new province, was relatively lean. However, soon Hainan experienced a re-bureaucratization process. This was due to the fact that reform in Hainan was not followed by similar reform at the central level. Therefore the bureaucracy in Hainan had problems connecting with the central government at the various administrative levels because of a lack of corresponding organs in Hainan, generating a need for such organizations to be re-established. Moreover, bureaucrats transferred to non-government organizations were working hard to resume their former positions. The new tasks associated with pursuing a reform-oriented course also necessitated staff that could take care of the functions defined as important by the leadership. This was clear in the case of Yangpu Economic Development Zone, where the local administration set up in the early 1990s required a local government and party set up (*bianzhi*) of approximately 800 state salaried people.

In Chapter 7, based on internal (*neibu*) sources, there is also a detailed analysis of the local administrative set up in Yangpu and the relationship between the local administration and the party's role in personnel appointments. Thus the chapter casts important light on how the *bianzhi* (staff allocation) and the nomenklatura system work at the sub-provincial level. The chapter also outlines the organizational history of the CCP in Hainan and how the party works at the local level. It is demonstrated that the party remains in control despite attempts to introduce a local civil service system in Yangpu. The secretary of the party committee is concurrently the head of the management bureau, and the party committee in Yangpu manages the appointment of responsible persons in functional departments and the general office through the nomenklatura system. Finally, Chapter 7 argues that there is a close link between attempts to introduce "small government" in Hainan and central attempts to introduce nationwide institutional reform, and the question is raised whether "small government" could be viewed as an attempt to apply national ideas on administrative reform locally rather than the other way around.

Chapter 8 focuses on the issue of "big society" which has been seen by scholars as another name for the implementation of civil society in Hainan. Various social intermediate associations form the core of big society. They are supposed to take care of the functions that the state is shedding through the process of creating a leaner bureaucratic system. Liao Xun argued that the state should only serve as a "soccer referee," as "traffic police" or as a "fire fighter." This would reduce the state's role to taking care only of functions that the society, market or enterprises cannot handle themselves. This chapter also contains an attempt to divide the various kinds of social associations into different categories. The membership of these social associations amounts to several hundred thousand. Combined with the existence of "'people-run' social undertakings" and "transitional intermediate organizations," they seem to constitute the core of a vibrant civil society. However, social associations in Hainan are required to register with the Ministry of Civil Affairs, Bureau of Commerce and Industry or some other branch of the administrative set up. In this sense their autonomy is limited and it could be argued that instead of a picture of spontaneously formed associations, one sees a picture of the state taking the initiative. Certainly the line between state and civil society is blurred in the Hainan case.

The basic premise of the "small government, big society" project is that the Chinese party–state is overbloated in terms of personnel and administrative organs. Consequently, a thorough trimming of the administrative structure is deemed necessary. The chapter concludes with a discussion of this assumption. It is argued that the Chinese state is in fact relatively small compared to a number of other countries – both in regard to publicly employed people as well as in regard to government revenues. Moreover, the "small government, big society" agenda has failed to consider that institutional reform should focus on qualitative improvements in terms of efficiency and capability rather than on quantitative reductions of administrative personnel and organs. However, there are indications that the Hu Jintao–Wen Jiabao leadership is beginning to realize that continued reduction of the Chinese government might jeopardize the long-term goals of improving the regime's governing capacity and creating a more sustainable development path based on "harmonious society."

Chapter 9 discusses Hainan's role in the so-called Pan–Pearl River Delta (PPRD) Regional Cooperation and Development Organization. While Hainan experienced an economic downturn during the 1990s, the Pearl River

Delta emerged as China's most dynamic economic region. Guangdong's performance was to a considerable extent based on its proximity to Hong Kong and Macao. In July 2003, the Guangdong leadership put forward plans to deepen economic development and cooperation in the region by forming a Pan–Pearl River Delta economic sphere, consisting of Sichuan, Hunan, Jiangxi, Yunnan, Guizhou, Guangxi, Fujian, Guangdong, Hainan and the two Special Administrative Regions of Hong Kong and Macao. The objective was to create a new economic growth pole centered on Guangdong and Hong Kong that could meet the growing competition from the Yangzi River Delta region. In addition to creating synergies and new development possibilities the Guangdong leaders were convinced that the new initiative would attract central investment and support. The PPRD organization was established in June 2004. Hanian decided to join hoping to benefit from cooperating more closely with economically more advanced provinces and regions such as Guangdong, Fujian and Hong Kong. In the wake of the founding meeting, a great number of cooperation agreements were signed between the governments and government departments of the provinces making up the PPRD region. They covered areas such as customs administration, commercial affairs, industrial development, consumer protection, price supervision, infrastructure, etc. Since 2006 the PPRD cooperation and development project seems to thave lost momentum, albeit new initiatives were taken in the Spring of 2007 and a successful Fourth PPRD Regional Forum was held in June 2007. In general, the central government appears to have paid lip service to the importance of the PPRD regional bloc but is clearly more interested in supporting Pudong New District and Tianjin Binhai New District. Beijing is in fact also wary of supporting regional alliances within the country that might challenge central control and authority. An additional factor explaining the relatively slow realization of these ambitious plans is that the provinces and regions participating are rather disparate in terms of economic development and resources and it has proven difficult to create an overall framework where the various member provinces can contribute their comparative advantages. For the Hainan leaders it is also a consideration that they are interested in maintaining the independence from "big brother" Guangdong that the island achieved in 1988.

Chapter 10 centers on the question of Hainan's role in the South China Sea. In a formal sense Hainan's geographical boundary includes the Paracels and Spratley Island groups and their surrounding water areas. This turns Hainan into China's biggest province in terms of area. China has claimed sovereignty over the whole South China Sea. The claim is contested by China's neighbours in the region and on several occasions there have been armed clashes. In January 2001 the Hainan Spy Plane Incident took place, indicating that China's claim over the area potentially involves a clash of interest with the USA. As shown in this chapter the various disputes have been handled in Beijing without the involvement of the Hainan authorities.

China's South China fleet is not based in Hainan but in Zhanjiang in Guangdong Province. Moreover, Hainan also has had very little influence on the exploitation of oil and gas reserves in the region. Oil and gas explorations are operated by China National Oil and Offshore Company (CNOOC), which is directly under central control. In this way oil exploration in Hainan waters are rather similar to the exploitation of Hainan's iron ore and rubber resources – they fall under the control of the central government. This continues to be a source of tension in Hainan.

In the concluding chapter, Chapter 11, it is argued that Hainan has seen important changes since it was granted the status of a new province and a special economic zone in 1988. For a while, the new province conducted a remarkable reform experiment under the slogan of "small government, big society." However, the experiment suffered from the economic downturn starting in the 1990s and from the fact that the central government never committed the resources and unequivocal political support that would allow the experiment to fully succeed. Beijing in fact continued to control important sectors of the provincial economy and also limited Hainan's role in the South China Sea. Thus the Hainan case shows the vulnerability of local economic and political experiments in China. They need the support of the central authorities in Beijing to truly take off. In sum, Beijing wields ultimate power over the provinces through its control over important personnel appointments and by controlling the redistribution system between rich and poor provinces as well as by ruling over a shrinking, but still sizeable state sector.

2 “A place that God forgot”

Background and history

Hainan is a continental island situated in the South China Sea, about 25 km off the southwestern coast of the Chinese mainland.[1] It covers an area of 34,300 km, which is only 1,700 km smaller than Taiwan.[2]

Hainan has a subtropical wet and dry climate in the North and a tropical wet climate in the South. The average annual temperature is around 24°C with a mean January temperature of 16°C. In general, the average annual precipitation exceeds 1,500 mm.[3] Hainan has alternating continental northeast monsoons and maritime southeast and southwest monsoons. The island receives more typhoons than any other part of China. The typhoon season lasts from May to November with the most severe storms likely to hit in September.

Hainan – the so-called treasure island (*baodao*) – has rich natural resources. It is home to many tropical plants and fruits such as coconut, pepper, pineapple, rubber, etc. In addition, Hainan is home to over 30 important minerals such as bauxite, cobolt, titanium, chromium, manganese, etc., and there are rich iron ores as well as occurrences of oil and gas.

The diversity of types and species of Hainan’s natural vegetation is the greatest anywhere in China. Even though the island has been subject to continuing deforestation and diminution of its plant formations, it still comprises a comparatively rich and diverse natural landscape. Originally, the vegetation consisted of rapid-growth forests, jungles, and parklands,[4] but today, most of the natural vegetation is depleted or consists of secondary forest, scrub, or grassland. There is some tropical rain forest left in the southeastern part of the island, south and east of Wuzhi Shan (Five Finger Mountain).

Hainan has a population of about 8.2 million of which 1.4 million belong to the ethnic minorities of Li and Miao and other non-Han peoples (i.e. approximately 17.5 percent of the total population in Hainan).[5] The Han Chinese can be divided into four main groups. One group is the Hainanese, that is, some two million Han Chinese born in Hainan whose mother tongue is Hainanese. The second group consists of about one million “old mainlanders," as the Han Chinese coming to Hainan in the 1950s are called. About 800,000 "new mainlanders" who came during the 1980s and 1990s constitute the third group. A fourth identifiable group is that of about 1.2 million overseas Chinese. In addition, there are some smaller communities (e.g. about 500,000 speakers of *Lingaohua*).[6]

The northern part of Hainan was incorporated into China during the Han dynasty. The Chinese abandoned it during the Warring States period and only partly restored control during the Sui dynasty. The Tang dynasty expanded imperial control over most of the island, which came to be known as Qiong (fine jade).[7] By the end of the Song dynasty, the Chinese had consolidated their control over Hainan, but the island remained under military administration. The Ming dynasty introduced a system of civil administration that remained practically unchanged until the fall of the Qing dynasty in 1911. However, even during the Ming dynasty, the imperial center often had difficulties ruling the island and its Li majority population, and, for long periods, Hainan was in fact independent or controlled by kings from what is now called Vietnam. According to the accounts of Mendes Pinto of his travels in the area in the late 1500s, the real rulers were often the pirates roaming the waters of the Gulf of Tongking.[8] When the Ming dynasty fell apart and was succeeded by Manchu rule, tens of thousands of Han Chinese fled to Hainan, pushing the Li back to the mountainous inner parts.[9] At the end of the Ming dynasty, about 470,000 Han Chinese had settled on the island, increasing to 1.5 million during the reign of Daoguang (1821–50) in the Qing dynasty.[10]

As Mendes Pinto's travel accounts indicate, the Portuguiese and other European seafaring nations were from early on aware of Hainan, but it was not until 1632 that the first European foreign presence was established in the form of a Jesuit mission. In the latter part of the nineteenth century, US and European missionaries (including Danes) also came to the island.[11] The French had some political interest in Hainan due to the island's proximity to French Indochina, and in 1898 they sought assurances that Hainan would remain within the French sphere of influence. Despite these religious and political interests on the part of the West, there were reportedly only 10–12 foreigners living in Hainan in the early 1880s.[12]

In the beginning of the twentieth century, Hainan remained "the place that God forgot."[13] After the fall of the Qing and the establishment of the republic, Hainan became part of Guangdong province. In 1912, Sun Yatsen suggested elevating the island to the status of a province. The suggestion came up again in the early 1920s, but the idea was never realized.[14] Hainan was too far away from the center of political power in Beijing and the various governments had enough to do just to stay in power.

However, the Kuomintang (KMT) took some interest in the island. Especially Wenchang County was a KMT stronghold and one of the local landlord families, the Song family, produced three famous daughters – one of whom married Sun Yatsen and another Chiang Kaishek. During the

1930s, Song Ziwen planned to invest 30 million *yuan* in railroad construction, creating a stir of "Hainan fever," but the Japanese invasion of China in 1937 prevented the plans from materializing.[15]

The Japanese invaded Hainan in February 1939 and defeated the local KMT troops, but they were never able to eliminate the local Communist forces that originated in the Qiongya revolutionary base area. They retreated to the mountains of the interior and were able to maintain a significant guerrilla resistance. During the Japanese occupation of the island considerable efforts were made to establish an infrastructure. The Japanese developed a mining industry in Shilu in Changjiang county and in Tiantu in Yaxian county. In order to ship out the iron, they built two railways: one from Shilu to Basuo and another from Tiantu to the southern part of Yulin. They also built a deep-water harbor in Basuo and expanded the ports of Haikou and Yulin. Moreover, the occupation forces improved the highways and constructed military airfields in Haikou and Sanya.[16] It is estimated that more than 10,000 Japanese specialists worked in Hainan during the war.

Immediately after the end of the Second World War and the Japanese pullout from China, Hainan again became part of Guangdong Province. In 1949, the Guomindang government was harboring plans of changing the administrative status of the island, but before these plans could be completed, Chiang Kai-shek and his forces withdrew to Taiwan after having suffered a defeat in the 1946–49 civil war in China.

Hainan was not taken by Communist forces until the spring of 1950 when mainland PLA troops, greatly assisted by the local Qiongya Column of the CCP and its guerrilla units, forced around 125,000 KMT troops to evacuate to Taiwan.[17] Mao and the CCP leadership were so encouraged by the victory that they immediately began to prepare for the invasion of Taiwan – only to be stopped a few months later by the intervention of the US Seventh Fleet.

An important front area

During the first decades of CCP rule Hainan was regarded as an important front area in mainland China's defense strategy. This was especially the case during the Vietnam war. Mainland China also needed many of the island's natural resources. For example, about 60 percent of all rubber production in China was located in Hainan, and the center in Beijing also needed the iron ore and the sugar and salt production of the island (the "two blacks and two whites"). Administratively the island was placed under Guangdong Province as a district (*qu*) with prefectural rank. In 1952, the island was divided into two by the creation of the Li-Miao autonomous district (*zizhi qu*), renamed the Li-Miao autonomous prefecture (*zizhi zhou*) in 1955. The autonomous area covered most of the minority areas populated by the Li and the Miao in the southern part of the island.[18]

As a result of the center's policy of extracting resources from Hainan, the economic development of the island was, in general, below the national level, and in 1979 the per capita income on Hainan was only 254 *yuan*, 20 percent less than the national average of 316 *yuan*.[19] The gross value of industrial and agricultural production (GVIAO) was only 1.8 billion *yuan* in 1979, less than 2 percent of Hainan's GDP in 2005.[20]

However, the post-Mao policies of economic reform and the opening up to the outside world had been advantagous to Hainan. The center realized that Hainan's location not only had military advantages but also could be tied in with the policy of developing the coastal areas and a number of SEZs. Preferential policies were granted in 1983, making Hainan a de facto SEZ, and in 1988, the island was designated both a province and a special economic zone. The former status created more direct links between Hainan and the reformist center in Beijing, which was looking for a place to try out some of its bolder reform plans. These plans involved taking Hainan beyond the other SEZs in political reform and establish a new system called "small government, big society," which allowed Hainan to offer potential foreign investors an attractive package of tax exemptions, duty-free import of production inputs, long-term lease-hold rights to land use, etc. The whole experiment was launched not only with the support of reformist leaders in Beijing such as Zhao Ziyang, but also with the support of Deng Xiaoping himself, who on two occasions came out with strong support for turning

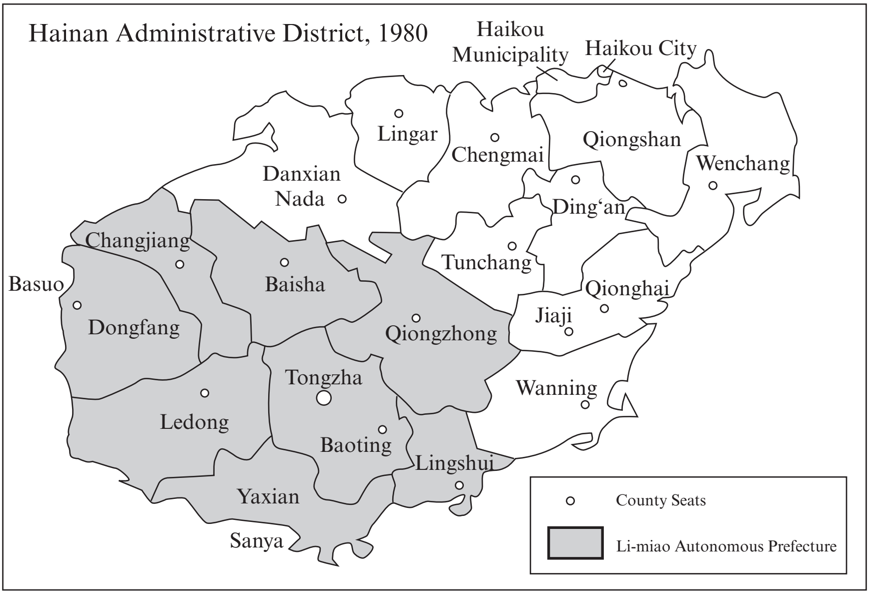
Hainan Administrative District, 1980
Haikou Municipality
Haikou City
Lingar
Chengmai
Qiongshan
Wenchang
Danxian Nada
Ding'an
Changjiang
Baisha
Tunchang
Basuo
Dongfang
Qionghai
Jiaji
Qiongzhong
Tongzha
Wanning
Ledong
Baoting
Lingshui
Yaxian
Sanya
County Seats
Li-miao Autonomous Prefecture

Figure 2.1 Hainan Administrative District, Administrative Division, 1980.

Hainan into a new economic dragon. He envisioned that the "treasure island" would be able to catch up with Taiwan in just 20 years.

Central–local relations in the Hainan case have often been complicated by the existence of strong localism in the island combined with a condescending attitude by the central authorities and its officials. Tensions and controversies continued to surface at regular intervals after 1949, but were particularly pronounced in the 1950s when the Southbound Work Teams attempted to ease out most of the native cadres. Localism in Hainan was so strong in the 1950s that the area was reportedly left alone during the land reform. The strong position of the locals was due to the fact that the CCP had, in the mid-1920s, established a revolutionary base on the island. Tensions came to a climax in 1957 during the Hundred Flowers Movement when there was an armed uprising in Lingao county. As a result of the uprising, most native cadres above county level were replaced, and the leader of the local communists, Feng Baiju, was transferred to the mainland. Since then, mainlanders have been in control of the politics of the island. Mainlanders also controlled the important rubber production that was part of the state farm sector on the island. Local Hainanese in the countryside were organized into people's communes and there were often conflicts between state farms and communes.

In 1980, Hainan was a district (*qu*) under the immediate control of Guangdong Province. As mentioned above, the island was administratively divided into two regions. The northern part, consisting of Haikou city and nine counties, was directly administered by the government of Hainan Administrative District seated in Haikou. In the south, the cities of Sanya and Tongza as well as eight counties were under the administration of the Li-Miao autonomous prefecture government seated in Tongzha. Although legally under the authority of the government in Haikou, the autonomous region was relatively independent.[21]

In 1987, Haikou was elevated to a prefectural level city (*diquji shi*).[22] To make the pattern of administrative jurisdictions even more complex, the state farms remained part of the system (*xitong*) of national land reclamation under the Ministry of Land Reclamation. In short, by the mid-1980s there were five different jurisdictions present in Hainan: the northern Han-area, the autonomous areas in the south, Haikou city, enterprises under the authority of the provincial government in Guangzhou, and the system of state farms and the central government.[23]

3 Establishing a new province

In order to discuss the problems and possibly bring Hainan's future development into line with the center's general reform policies, a conference on the so-called Hainan Island Problem was held in Beijing in June–July 1980. The conference was called by the state council and included leading officials from Guangdong Province and Hainan Administrative Region as well as from a number of central ministries and commissions such as the State Agricultural Commission and the Ministries of Agricultural Reclamation, Forestry, Water Resources and Electric Power, Civil Affairs, Finance, and Communication. The PLA General Logistics Department also took part, indicating the importance of the island in military terms. Top leaders such as Zhao Ziyang, Wan Li, Gu Mu and Bo Yibo monitored the conference and issued "important instructions."[1]

The meeting primarily discussed measures to stimulate Hainan's agricultural production. This included the strategically important rubber production as well as tropical crop production and grain production.[2] These sectors had been negatively influenced by "disputes between state agricultural farms and the communes/production brigades."[3] The state council would no longer tolerate these disputes, and a number of measures were adopted to encourage state farms and communes/production brigades to cooperate. The state would assist by transferring 450 million *jin* of grains to Hainan, but basically the island was to rely on its own resources.[4]

According to the state council's summary of the meeting (the so-called circular 202), it was also decided to grant Hainan more autonomy in the areas of foreign economic activities. The island was to retain a certain percentage of foreign exchange earned and to be permitted relatively large jurisdictional control.[5] It was specifically mentioned that Shenzhen's and Zhuhai's experiences could be used as a reference for Hainan's future development.

In sum, a number of measures and policies were to be adopted in order to expand local economic autonomy. Some of these measures addressed the need to stimulate Hainan's backward agricultural sector; others dealt with foreign economic issues and resembled earlier initiatives taken in Shenzhen and Zhuhai SEZs.

Circular 202 was discussed in a number of meetings among cadres and officials in Guangdong Province as well as in Hainan. Thus, the Guangdong Provincial Party Committee convened a special meeting in Guangzhou August 12–18, 1980, in order to follow up on the discussion at the center. Present at the meeting were members of the provincial party committee in Guangdong, the party committee in Hainan and leaders of the Li-Miao autonomous prefecture. The meeting focused on ways to improve agricultural production, in particular rubber and other tropical crops.[6] Following this meeting, Hainan's party committee circulated a notice on studying and implementing the goals and policies set by the center and Guangdong Province. This document was especially directed to local cadres in Hainan and stressed that the key to the implementation of the policies laid down was an improved corps of party cadres in Hainan.[7]

Provincial officials also supported the idea of giving Hainan more autonomy and possibly develop a new SEZ on the island. In particular, Ren Zhongyi, who had replaced Xi Zhongxun as first party secretary of Guangdong, was in favor of accelerating the economic development of Hainan. The favorable provincial attitude towards the idea of promoting Hainan was clearly stated in a circular (*yuefa*) issued in November 1981 by the party committee of Guangdong Province. The circular stipulated the adoption of preferential measures vis-à-vis foreign joint ventures such as tax holidays, low prices in connection with rental of land and buildings, advantageous procedures by import of production materials, retention of foreign exchange, cheap labour power, etc.[8] This was believed to greatly facilitate the inflow of FDI. As one local official explained in 1982: "We can even offer better terms than in Shenzhen. In joint ventures we can provide cheaper labour power and land than Shenzhen."[9] However, local officials' attempts to turn Hainan into an SEZ similar to Shenzhen were thwarted by Beijing, which was mainly concerned with resolving the island's internal contradictions and problems.[10] The center would not object to Guangdong Province allowing Hainan more autonomy, but it hesitated to go all the way and formally declare Hainan an SEZ. The reason seems to be that this would entail central investment allocations to Hainan. Moreover, important central leaders were not keen to support the establishment of more zones. In fact, key leaders such as Chen Yun had all along expressed reservations on the zone policy.

In sum, central leaders did not object to Hainan pursuing policies that were identical to those implemented in Shenzhen and the other SEZs, but they would not embark on a major investment program in order to establish the necessary infrastructural facilities. Therefore, local officials had difficulties realizing their ambitious plans. Hainan simply did not have sufficient financial resources.

In 1982, Guangdong's provincial leadership sent Lei Yu to Hainan to direct the work of the local party and government apparatus. Lei Yu was an able administrator and brought a sense of dynamism to the island.[11] This dynamism was strengthened by Deng Xiaoping's support of the attempt to accelerate the development of Hainan. Thus, Deng reportedly had said that China had two "treasure islands," i.e. Hainan and Taiwan. Of the two, Hainan had the richest natural resources, yet the GDP of Taiwan was 40 times larger than that of Hainan, and the living standard of the people of Taiwan was five times higher. Therefore, Hainan should work hard to catch up to Taiwan within the next 20 years.[12]

In January 1983, Zhao Ziyang led a new meeting about Hainan, this time in Haikou, the capital of the island. Following the conference, other top national leaders also visited Hainan, including General Secretary Hu Yaobang and state councillor Gu Mu, who was in charge of the center's work on the SEZs. On March 12, the Party Central Committee and the State Council sent out a circular (*zhongfa*) summing up the basic principles for accelerating the work that had been discussed.[13]

"A special zone which is not a special zone"

Similar to the earlier document mentioned above, the circular called for rapid development of Hainan's forestry and agriculture, including rubber production and tropical crops. However, it was emphasized that Hainan would no longer place "particular emphasis on agriculture" but would stress agricultural as well as industrial development. Since industry was at a low level, this formulation in practice meant a focus on providing the basis and framework for industrial development. The circular mentioned that the center would invest in railway track construction and upgrade some of the small ports around the island. The center would also gradually increase its coal and diesel supplies to Hainan island. The economic and financial plan of Hainan would still be included in the economic plan of Guangdong Province and in the national state plan, but Hainan would be allowed to undertake all capital construction projects in which it, on its own, could arrange for capital, raw materials, fuel and power, foreign exchange, etc.

Guangdong's provincial government would continue to uphold its fiscal responsibility towards Hainan according to the system of "local authorities submitting a fixed amount of revenue and paying for a fixed amount of expenditure, while keeping the remaining revenue and all savings as well as receiving a definite subsidy quota, which remains unchanged for five years."[14] However, Guangdong Province would agree to increase the subsidy by 10 percent annually in addition to providing a specialized allocation of 10 million *yuan*. Moreover, the People's Bank of China would, on an annual basis, provide Hainan with a low interest loan of 50 million *yuan* and provide foreign exhange loans up to US$ 50 million for the next five years.[15]

Furthermore, the circular stipulated that the central and provincial governments in Beijing and Guangzhou would be prepared to give Hainan increased powers in foreign economic relations and cooperation. Thus, the Hainan Administrative Region was authorized to approve new construction projects, using foreign capital investment below US$ 5 million and, provided this would not require aid from the state/province or would affect the state export quota. Provincial and state authorities were also prepared to facilitate the establishment of cooperative business operations, foreign enterprises, and equity joint ventures with foreign participation.[16] During the first and second profit-making year, they would enjoy tax-free status and from the third year, a reduced tax of 15 percent would be collected. Projects using foreign exhange would not be subject to import fees in areas of construction equipment, mechanical equipment, and raw materials used for production. Equity joint ventures would be allowed to remit profit abroad without a tax on the exported profits.

Finally, it should be mentioned that the circular stipulated that Hainan would be allowed to retain all increases in foreign exchange within the export plan laid down by Guangdong Province. Hainan would be allowed to use any foreign exchange earned from trade exceeding the plan targets, while being responsible for profit as well as losses incurred from such trade. Locally retained foreign exchange could be used to import certain scarce consumer goods, including those on the list of state-restricted import commodities.[17]

In general, the circular sanctioned that Hainan was to be given most of the authority in foreign trade and investment that earlier had been given to Shenzhen and the other SEZs. Following the issuance of the circular, Ren Zhongyi summed up his understanding of the situation by stating that "when carrying out economic activities with foreign countries, Hainan island can exercise policies as implemented in special economic zones."[18] However, as mentioned in the circular, central leaders would not take the full step and had directed that Hainan should not become a special economic zone. It had become a *bu shi tequ de tequ* (a special zone which is not a special zone).[19]

Within a short period of time a host of actions were taken to stimulate the development of Hainan within the framework of the circular. For example, air links between Hainan and the mainland and Hainan and Hong Kong were improved. The central and provincial authorities provided more financing for agriculture, livestock and welfare work. Funds were also made available to start construction of 10 key projects, including expansion of Haikou's harbor, construction of 50 kilometres of railway to link Basuo and Sanya, the construction of Yangpu deep-water port, improvement of postal and telecommunication services, the construction of sugar refineries, the establishment of power transmission lines, etc.[20]

By 1983, Hainan had already entered a dynamic development process and there was a clear optimism as to what the future would hold. The island had a new dynamic leader who was well-connected with important people in Guangdong and clearly also had the ear of the central leadership in Beijing. But just as importantly, at least seen from the perspective of the local population, Lei Yu worked well with local Hainanese cadres.

The Hainan car scandal

However, in 1985 a scandal arose that shattered the dynamism and optimism of the Hainan reformers and gave the conservatives good arguments for slowing down the process. A Central Committee report revealed that between January 1, 1984 and March 5, 1985, senior Hainan officials had abused their special powers to authorize the import of foreign goods and had approved import of 89,000 motor vehicles, 2,860,000 television sets, 252,000 video recorders, and 122,000 motorbikes. More than 10,000 motor vehicles and most of the other consumer goods were resold within the mainland for double or triple prices, although the goods were imported tax-free to be used only on Hainan.[21]

According to the report, 88 out of Hainan's 94 government departments and 872 companies were involved in the scandal. Even schools and kindergartens participated in the auto trade. The whole affair had cost over one billion of China's hard-won foreign currency.

Clearly, the center could not ignore profiteering of this magnitude. The affair had attracted international attention and also strengthened the internal opposition against the whole strategy behind the establishment of the SEZs and the *kaifang* policies. A large group of people from different central ministries and offices and from the central commission for the inspection of discipline were sent to Guangzhou to work out a report together with the Guangdong authorities. The situation had to be handled with care since it not only involved Hainan, but had potential implications for central–regional relations as such.

After two months the investigating group came up with a report which condemned what had happened. Lei Yu was dismissed and reassigned to a lower-level position in the suburbs of Guangzhou, and the party secretary Yao Wenxu, who had also neglected to take action against the illegal activities, was given a serious warning, but kept his post. A third top official who was criticized was Chen Yuyi, deputy-director of the island and head of foreign economic work and Hainan's highest-level native cadre. He had personally approved the import of 73,000 vehicles, many of them on behalf of friends from his native county.[22] Chen Yuyi was dismissed from his post, but kept his membership of the party.[23] A few lower-level officials were jailed and many others received criticism and warnings.

The whole affair caused much resentment on Hainan. The local officials on Hainan felt that they had been punished unfairly for something other provinces or development zones had also attempted to do, although perhaps on a smaller scale. There was a general feeling in Hainan that the central authorities should treat the case mildly since Hainan was a poor and backward area and because the auto-deals were an unintentional mistake rather than a deliberate act. Moreover, even though the Hainan leadership perhaps could be blamed, they should not be punished since they had worked in the interest of Hainan and not for their own benefit. Part of the picture was also a fear that too much publicity on this matter would create doubts concerning Hainan's future development and would scare off potential investors.

In reality, however, Hainan authorities had clearly been aware of what was happening. Already in June 1984 the State Council Special Economic Zone Office had phoned the Hainan authorities to put a stop to its importation and reselling practices. In September, the same office even dispatched a team to Hainan to discuss the matter with Yao Wenxu, Lei Yu, and Chen Yuyin. The Hainan leaders claimed they had stopped approving the importation of more vehicles, but in fact they had not done so.[24] In November, the State Council again phoned the Hainan authorities on numerous occasions, ordering them to immediately stop the import. However, in spite of these warnings, the leadership of Hainan only took specific action in March 1985. It was announced that 138 out of 167 companies established by various party and government organizations would be closed. The 29 kept operating would all be detached from party and government organizations. Cadres involved in the abolished companies were sent back to their original units, but none of the leading officials seemed to have been affected by the local investigation.

The Guangdong leadership was not sympathetic to the claim that the auto-deals were only minor offences committed by lower level cadres and that Hainan should be treated mildly. In a speech to leading cadres in Hainan, the new party secretary of Guangdong province Lin Ruo said that not only had the center shown considerable willingness to assist the development of the island, but Guangdong Province had also increased its financial support over the years. Therefore, it was unjustified to use the arguments concerning the backwardness of Hainan. He underlined that cadres also were obliged to obey the law and said that the incident "is not an error [*shiwu*], but a serious mistake [*yanzhong cuowu*]."[25] Consequently, it was correct to punish the Hainan party leaders. He reassured those who feared the future by underlining that the center's policies of encouraging the economic development of Hainan remained unchanged.

Apparently, the center in Beijing was more sensitive to the concerns of Hainan. Gu Mu, for example, tried to minimize the incident by saying that the reform policy and opening to the outside world were new policies, and since the cadres involved lacked experience with this kind of work, mistakes were bound to occur. In his mind, there was no need to make too much fuss out of it or regard it as too serious a problem.[26] Clearly, there were differences of opinion between Gu Mu and the Guangdong leadership.

The final report by the group investigating the scandal was not transmitted to the Hainan authorities until July 1985, indicating that there were also disagreements in the central leadership as to how to deal with the problem. Apparently, the reformers were reluctant to mete out too heavy a punishment for fear that such a line of action would have consequences for the desired reforms on the island. On the other hand, they could not let the affair derail the overall policies of the SEZs. If they did not take action they would be open to criticism from Chen Yun and the other party stalwarts.[27] The solution to the dilemma was to label what had happened as a manifestation of "localism." Although the leaders of Hainan had not personally gained from the affair, they had put their local interests above the interests of the country and such behaviour should of course be criticized.[28] In this way the Hainan party leaders were sacrificed in order to serve the general policy of *kaifang*.[29]

The whole affair indicated disagreement at different levels concerning how to evaluate the events and their implications. Guangdong appeared to take a harsher line than the center. A plausible explanation could be that the Guangdong officials and especially Lin Ruo, who was new in office, were interested primarily in saving their own necks by distancing themselves from the Hainan leaders. But in the center in Beijing, there was also disagreement reflecting different lines of thought as to the SEZs and international economic policy in general. It was not the last time that leadership divisions would have repercussions in Hainan.

As indicated above, the incident damaged the ambitious development plans formulated in 1980–83, and there was a considerable loss of momentum since the island lost almost all of its preferential rights.

Moreover, the affair opened old grievances. Many locals felt that since 1949 and especially since the Feng Baiju affair in 1957, Hainan had been exploited almost solely for the benefit of the mainland. All strategic resources and important raw materials had been controlled directly by Beijing or Guangdong and allocated for processing in other parts of China. In short, many felt that Hainan had been unduly exploited in the past and hampered in its development process and therefore now had the right to demand compensation in one form or another.

Momentum regained

In spite of the scandal, important central leaders including General Secretary Hu Yaobang, Premier Zhao Ziyang, and State Councillor Gu Mu were still supportive of the idea of a rapid economic development of Hainan. In October 1985, Gu Mu – during an inspection tour of Hainan – assured leaders and cadres of the region that Beijing would continue to uphold the policies outlined in document 202 of July 1980 and document 11 of November 1983. In February 1986, Prime Minister Zhao Ziyang, accompanied by politbureau members Hu Qili and Tian Jiyun, visited the island. In an important speech to leading cadres in Haikou on February 14, Zhao Ziyang tried to make reassurances by stating that the criticism and punishment of a handful of people who had made mistakes should not be transformed into a punishment of the more than five million people living on Hainan.[30] As to the direction of Hainan's development, he stressed the importance of producing and processing tropical products. He also advocated rapid development of the tourist industry and finally explained that the special policies and privileges granted earlier were an important part of the development strategy and should be used to earn foreign currency and attract outside investment, including capital from the mainland.[31]

Following the visit by Hu and Zhao, other party leaders from the center as well as from Guangdong visited Hainan in order to form an impression of the plans needed to renew the economic development process. One of these was Liang Xiang, vice-chairman of the advisory commission of Guangdong Province and former first mayor and party secretary of Shenzhen. Liang Xiang formulated his impressions and suggestions in the form of a report to the central authorities.[32] In the report, he proposed to administratively separate Hainan from Guangdong and turn it into an independent province directly under the central government.[33] He also suggested turning the island into a huge free trade area, where capital, people, and goods could move in and out freely.

Once again, Deng Xiaoping interfered in the discussion. In June 1987, he told some guests from Yugoslavia that the decision to establish SEZs was correct. He added that a SEZ was under consideration on Hainan, which would be much larger than the existing ones. He said that if the island were properly developed, it could turn out to be something quite special.[34] Reportedly, Deng's words provided great encouragement for the local cadres on Hainan, who had been on the defensive ever since the scandal in 1984.

Following Deng's intervention, Zhao Ziyang, at a meeting of the standing committee of the 6th NPC, proposed elevating Hainan to provincial status. The meeting decided to submit the proposal to the First Meeting of the 7th NPC, scheduled to be held in March 1988. In the meantime, a so-called "preparation group" (*choubei zu*) appointed by the State Council should prepare the establishment of the new province. The preparation group was formally established on September 23, 1987. In addition to Liang Xiang, the group consisted of Xu Shijie, member of Guangdong's advisory committee, Yao Wenxu, party secretary in Hainan, Meng Qinping, who had replaced Lei Yu in 1988, and Wang Yuefeng, head of the Li and Miao autonomous region. However, already on September 11 the two future leading members of the group Xu Shijie and Liang Xiang had been called to Beijing to meet with Zhao Ziyang. During the meeting, the General Secretary said that in addition to completely reforming Hainan's political and economic systems, it would be necessary to devolve its foreign exchange management authority to lower administrative levels, eliminate its export quota restrictions, allow it to balance its own budget and rent its land and give more preference to its Hong Kong, Macao, and foreign enterprise investors.[35]

The preparatory group with Xu Shijie as chairman and Liang Xiang as vice-chairman quickly started its work. Xu Shijie and Liang Xiang went on an inspection tour of the island. They also contacted Liu Guoguang, noted economist and vice-president of the Chinese Academy of Social Sciences, and asked him to form a team to investigate Hainan and come up with suggestions that the preparation committee could use for its work.

On September 26, three days after the formal establishment of the preparation group, the Central Committee and the State Council issued a notice outlining the broad goals of the work of the preparation group. First, Hainan was to have a simplified administrative setup where the administrative layers between city/county and provincial government were cut. Second, enterprises directly administered by the center or by the provincial authorities of Guangdong province were to be taken over by the new Hainan government, but the center would continue to offer support in terms of investment, subsidies and raw materials. Third, the development plans were to be financed by Hainan's own resources and foreign investment and not by increased investment from the center. Concerning foreign investment and development of an economic sector with foreign participation, Hainan should have even more self-determination than the other zones. Systemic reform should create an administrative structure even more lean and efficient than that of the other zones and turn Hainan into a comprehensive reform ground for the provinces and structures of the whole country (*quanguo sheng yiji jiegou quanmian gaige de shidian danwei*).[36]

On October 8, Xu Shijie disclosed that in addition to being elevated to a province Hainan would be granted the status of a SEZ.[37] A few days later, a State Council spokesman revealed that Hainan would become an experimental region for economic and administrative reform.[38]

The report of Liu Guoguang's research team was finalized within just one and a half months. It contained an analysis of the weak and strong points of Hainan's resource endowment, present stage of development, and strategic location as well as a long-term development plan for the island.[39] According to the report, the general goal was to establish a special export-oriented economic zone with industry as the most important sector and to achieve a per capita GNP of more than US$ 2,000 within a twenty-year-period, comparable to the economic level of Taiwan in the beginning of the 1980s. Having achieved this goal, Hainan should strive to catch up with the industrialized countries before the year 2030.

The development plans of the report specified which sectors of the economy to develop in order to reach the long-term goals.[40] Industry was supposed to be the dynamic core of the development process, but attention should also be paid to agriculture and tourism. It was realized that the ambitious development plans required a tremendous amount of investment. Since the center would not increase its investment and the financial resources of the island itself were rather limited, foreign capital would be needed. The report indicated a number of ways to achieve this goal, including the extension of lease-hold rights to land. It was also realized that it would be necessary to dramatically improve the investment environment on Hainan, otherwise foreign investors would hesitate to make substantial commitments. It was, for example, necessary to make great efforts to expand infrastructural facilities and the service sector.

Concerning foreign economic relations, the development plan of Liu Guoguang's research team proposed to allow foreign joint ventures to sell their products on the Chinese domestic market. Such a proposal would clearly accommodate the many potential foreign investors who were much more interested in obtaining access to the huge Chinese market than in producing for the world market where they would in many instances already have a presence.

In late February–early March, the Preparatory Committee held an enlarged meeting in Haikou with first party secretaries from Hainan's cities and counties attending. Echoing the recommendations of the Liu Guoguan group, Xu Shijie and Liang Xiang stressed three aspects of the new system. First, the future economic system would be regulated by market forces. Second, state-owned enterprises would lose their priority and other types of business, especially those involving foreign investment, would be increased. Third, foreign workers and capital would be able to enjoy free entry, and import and export of goods would basically take place without restrictions.[41]

The work of Liu Guoguang's research team and Xu Shijie's preparation group apparently satisfied the central leaders in Beijing, and on April 13, 1988, the First Session of the Seventh National People's Congress formally passed two decisions on Hainan, one on giving the island provincial status and another on establishing an SEZ in the new province.[42] Xu Shijie and Liang Xiang were appointed as party secretary and governor, respectively.

Xu Shijie had retired for a year from his post as party secretary of Guangzhou when he was asked to head the party in the new province. In spite of his reputation for being a conservative, he soon turned out to be a staunch supporter of further reform on Hainan.[43] At the same time, he was able to gain considerable local support by promoting local officials as far as possible instead of only recruiting cadres from the mainland.

Liang Xiang had similarly been retired for more than a year as mayor of Shenzhen. He was probably the more visionary of the two, and the remarkable transformation that took place in 1987–89 during his tenure as Governor is closely associated with his name. Thus, he was the initiating force behind the two key State Council documents of December 1987 and May 1988, respectively, which detailed a number of the new province's special policies.[44] Liang Xiang's ability to carry through his ideas not only stemmed from his experiences as head of Shenzhen during a crucial period of its development process, it was also a function of his close relationship with Zhao Ziyang. However, eventually this would cause his downfall in the aftermath of the Tiananmen massacre. Xu Shijie was not known as an ally of Zhao Ziyang's, but he had supported Liang Xiang in his policies and therefore also had to go as party leader in the summer of 1990. However, he continued to play a political role as Chairman of the Standing Committee of the Hainan Provincial People's Congress until he passed away in July 1991.

Post-Tiananmen leadership

The post-Tiananmen leadership, consisting of Governor Liu Jianfeng and Party Secretary Deng Hongxun, did not share the visions and commitments of their predecessors. Moreover, they were appointed at a time when the political climate in China was not particularly conducive to reform experiments. Due to mutual personal animosities they also had difficulties working together, which certainly did not strengthen Hainan's position vis-à-vis the central authorities. After an economic trough in 1989 and 1990, the economy began to recover and was particularly expansive in 1992 following Deng Xiaoping's *nanxun* (Southern Inspection Tour). However, the Hainan leadership never seriously tried to resume the reform offensive, and when the opportunities created by Deng's tour became obvious it was too late for Hainan, since the center's attention was beginning to shift to Shanghai.

In January 1993, Liu Jianfeng and Deng Hongxun were transferred to other appointments on the mainland and were replaced by one man as governor and party secretary, Ruan Chongwu, former Minister of Labour and a member of the Central Committee. Du Qinglin, Wang Xiaofeng and Chen Yuyi were appointed deputy secretaries. Ruan Chongwu was formally the most senior official to head Hainan since the 1950s. He was also believed to be a member of Jiang Zemin's network. However, Ruan Chongwu did not appear to be using his political influence in Beijing to further the cause of Hainan. To be true, the economy of the island continued to surge, but the reform initiative appeared to have shifted to other parts of the country, much to the chagrin of the locals. Nor did Ruan Chongwu resume the policy of Liang Xiang and Xu Shijie to promote local officials as much as possible, and most top positions were still occupied by mainlanders. In 1998, Ruan Chongwu retired and was succeeded by Du Qinglin who had formerly worked as head of Jilin's Youth league, Vice-Secretary of the Party Committee of Changchun City and head of the Propaganda Department of Jilin's Party Committee, and had been transferred to Hainan in 1992 to serve as Deng Hongxun's deputy. Du Qinglin became a member of the Central Committee at the Fifteenth Party Congress in 1997. With Ruan Chongwu's retirement the two top posts were again split in two and while Du Qinglin became party leader, Wang Xiaofeng, who had served as deputy party secretary since 1993, took over the post of governor. In 2001, when Du Qinglin was called to the center in Beijing to become Minister of Agriculture, Bai Keming, a former vice-head of the Propaganda Department of the Central Committee and a staunch ally of Jiang Zemin was appointed first secretary of Hainan, where he served about 16 months before he was transferred to head the party organization in Hebei in November 2002. In Hainan, he was succeeded by Wang Qishan who only had a brief stint as party secretary before he was called back in April 2003 to Beijing to take up the important position as mayor of the capital. The party center decided to appoint Wang Xiaofeng as his successor in Hainan.

Wang Xiaofeng had formerly worked as vice-governor and was transferred to Hainan in 1993 where he was appointed deputy party secretary and executive vice-governor of the province and, in 1998, governor. When he stepped down as governor in 2003 in order to become party secretary of Hainan's provincial party committee, the governorship was taken over by Wei Liucheng who had a long background in the oil industry where, from 2000 to 2003, he had served as board Chairman and CEO of China National Oil and Offshore Company (CNOOC). His appointment as governor is a good example of the practice of appointing CEOs from the largest SOEs to state leadership positions. Li Lihui, the current president of Bank of China, is an example of the reverse process. He was vice-governor of Hainan province before becoming president of the Industrial and Commercial Bank of China in 2004, from where he moved to take up his current position in the Bank of China. In December 2006, Wang Xiaofeng stepped down and Wei Liucheng moved up to become the new party secretary. Luo Baoming was appointed to the vacant governorship.[45]

This shows that at the top level, appointments are decided by Beijing according to the nomenklatura system and that candidates to the party secretary post as well as deputy party secretary usually come from outside the province. Some of these (e.g. Ruan Chongwu, Bai Keming) were transferred to Hainan to directly take up the party secretary position. Others including Du Qinglin, Wang Xiaofeng and Wei Liucheng were transferred to serve as deputy secretaries before they were moved to the top position. None of them had worked their way up through the local party organization and none of them were women nor had a national minority background. The only two representatives of the Li minority, Wang Yuefeng and Wang Xueping, who as deputy governors were part of the top provincial leadership, retired in 1991 and 1998, respectively.

Table 3.1 is a list of all governors and vice-governors in Hainan from 1988 to the beginning of 2007, and Table 3.2 is a list of all CCP secretaries and deputy secretaries in Hainan during the same period. Of the five governors, Wang Xiaofeng has been serving for the longest period (i.e. 5 years and 9 months), followed by Ruan Chongwu with 5 years and 1 month. The number of vice-governors has consistently been eight. Probably the most well-known of these vice-governors is Bai Keming who was executive vice-governor for almost five years and known for his flamboyant life-style. The average length of time served by for governors in the period from April 1988 to January 2007 has been approximately 3.9 years (see Table 3.1). With regard to CCP secretaries, the average period has been somewhat shorter, with an average of 2.8 years (see Table 3.2). On a national level, since 1979 the average tenure for governors has been 2.9 years and for party secretaries 3.5 years.[46] Thus Hainan governors stay longer in their positions, as is the general rule in China, whereas party secretaries are replaced more often.

Table 3.1 Provincial governors and vice-governors of Hainan (April 1988–February 2007)

Provincial Governors of Hainan (total period: April 1988–January 2007)	*Period (years)*
Liang Xiang (April 1988–September 1989)	2 years 6 months
Liu Jianfeng (September 1989–February 1993)	3 years 6 months
Ruan Chongwu (February 1993–February1998)	5 years 1 month
Wang Xiaofeng (February 1998–October 2003)	5 years 9 months
Wei Liucheng (October 2003–January 2007)	3 years 4 months
Luo Baoming (January 2007–February 2007, onwards–)	–
Average period **(April 1988–January 2007; excl. Luo Baoming)**	**3.9 years**
Deputy governors (total period: April 1988–January 2007)	*Period (years)*
Bai Keming (April 1988–January 1993)	4 years 10 months
Meng Qingping (April 1988–February 1993)	4 years 11 months
Wang Yuefeng (Li minority) (April 1988–May 1991)	3 years 2 months
Xin Yejiang (August 1988–February 1993)	4 years 7 months
Zou Erkang (August 1988–February 1990)	1 year 7 months
Chen Suhou (February 1990–January 1997)	7 years
Mao Zhijun (May 1991–January 1997)	5 years 9 months
Wang Xueping (Li minority) (May 1991–April 1998)	7 years
Liu Mingqi (February 1993–November 1996)	3 years 10 months
Wang Xiaofeng (February 1993–September 1997)	4 years 8 months

Table 3.1 (*cont'd*)

Deputy governors *(total period: April 1988–January 2007)*	*Period (years)*
Wu Changyuan (December 1996–January 2007*)	10 years 2 months
Han Zhizhong (December 1996–September 1997)	10 months
Wang Houhong (March 1997–April 2002)	5 years 2 months
Wang Qiongying (f.) (September 1999–January 2003)	3 years 5 months
Jiang Zelin (February 2002–January 2006)	4 years
Li Lihui (September 2002–August 2004)	2 years
Liu Qi (January 2003–January 2007*)	4 years 1 month
Lin Fanglue (January 2003–January 2007*)	4 years 1 months
Fu Guihua (f.) (February 2003–January 2007*)	4 years
Chen Cheng (November 2004–January 2007*)	2 years 3 months
Yu Xun (January 2006–January 2007*)	1 year 1 month
Jiang Sixian (November 2006–January 2007*)	3 months
Average period (April 1988–January 2007)	**4.0 years**

Sources: For the period April 1988–September 1997, see Zhonggong zhongyang zuzhibu, *Zhongguo gongchandang zuzhishi ziliao 1921–1997* (Material on the Organizational History of the Chinese Communist Party, 1921–1997) (Beijing: Zhonggong dangshi chubanshe, 2000), pp. 1222–1226). See also *Who's Who, Current Chinese Leadership (Zhongguo xianren gaoji lingdaoren cidian)* (The World Chinese Businessman Publishing Company Limited, 2005), pp. 70, 592–610; *China Aktuell*, No. 2 (2005), p. 20, No. 3 (2005), p. 21, No. 1 (2007), p. 31; Xinhua News Agency, February 9, 2007. See also the following websites:www.chinavitae.com; http://www.china.org.cn/english/government/199834.htm; http://www.china.org.cn/english/GS-e/195763.htm); http://www.bank-of-china.com/en/common/third.jsp?category=1155525472; http://english.people.com.cn/200601/19/eng20060119_236519.html.*

Note: Those marked with an asterix are still in office – the calculated average is therefore preliminary and smaller than it would be otherwise.

Table 3.2 Provincial party leaders in Hainan (April 1988–February 2007)

CCP First Secretaries in Hainan Provincial Party Committee (February 1988–January 2007)	*Period (years)*
Xu Shijie (February 1988–July 1990)	2 years 6 months
Deng Hongxun (July 1990–January 1993)	2 years 7 months
Ruan Chongwu (January 1993–February 1998)	5 years 1 month
Du Qinglin (February 1998–August 2001)	3 years 7 months
Bai Keming (August 2001–November 2002)	1 year 4 months
Wang Qishan (November 2002–April 2003)	6 months
Wang Xiaofeng (April 2003–December 2006)	3 years 9 months
Wei Liucheng (December 2006–onwards*)	–
Average period (excluding Wei Liucheng)	**2.8 years**

Deputy-secretaries of the CPC Hainan Provincial Committee (February 1988–January 2007)	*Period (years)*
Liang Xiang (February 1988–September 1989)	1 year 8 months
Liu Jianfeng (February 1988–January 1993)	5 years
Yao Wenxu (February 1988–May 1991)	6 years 4 months
Du Qinglin (March 1992–February1998)	6 years
Chen Yuyi (July 1993–February 1997)	3 years 8 months
Wang Xiaofeng (January 1993–April 1998)	5 years 4 months
Wang Houhong (February 1998–April 2002)	4 years 3 months
Wang Guangxian (January 1999–April 2002)	3 years 4 months
Wei Liucheng (October 2003–December 2006)	3 years 3 months

Table 3.2 (*cont'd*)

CCP First Secretaries in Hainan Provincial Party Committee (February 1988–January 2007)	*Period (years)*
Cai Changsong (January 1996–January 2007*)	11 years 1 month
Luo Baoming (July 2001–January 2007*)	5 years 7 months
Average period	**5.0 years**

Sources: For the period April 1988–September 1997, see Zhonggong zhongyang zuzhibu, *Zhongguo gongchandang zuzhishi ziliao 1921–1997* (Material on the Organizational History of the Chinese Communist Party, 1921–1997) (Beijing: Zhonggong dangshi chubanshe, 2000), pp. 941–950. See also *Who's Who, Current Chinese Leadership (Zhongguo xianren gaoji lingdaoren cidian)* (The World Chinese Businessman Publishing Company Limited, 2005), pp. 70, 592–610; *China Aktuell*, No. 2 (2005), p. 20; No. 3 (2005), p. 21; No. 1 (2007), p. 31; *Zhongguo renwu nianjian* (Yearbook of Chinese Leading Figures 2005 (Beijing: Zhongwai mingren wenhua chanye jituan, 2006); Webpage: www.chinavitae.com.

Note: Those marked with an asterix are still in office – the calculated average is therefore preliminary and smaller than it would be otherwise.

Islanders versus mainlanders

Economic progress has mainly benefited the new mainlanders, who live in the cities and are engaged in industry, commerce, real estate, and government work, whereas the Hainanese, who primarily live and work in the countryside, have benefited less. The "old mainlanders," who used to dominate the local political arena and who primarily work in the privileged state sector in agriculture or in the mining industry and other state sector enterprises, also feel that the "new mainlanders" are getting the larger piece of the cake. The Li population has barely been affected by the economic reform process, and the administrative reform – abolishing the Hainan Li and Miao Autonomous Prefecture – has been perceived as a step backwards by the native population and has caused considerable concern. These ethnic and social problems are compounded by the influx of large numbers of migrant workers from the mainland. It is estimated that in the first quarter of 1989 alone, 200,000 such migrants arrived in Hainan. During the period 1990–92, an additional 400,000 arrived. Many left again when they realized that Hainan was not the kind of bonanza they had dreamed of, but many have stayed on and have taken up contract and other temporary jobs formerly done by the locals. Moreover, there was also a "flood into Hainan" from the mainland of officially approved personnel. In 1988 alone, Beijing had approved more than 170,000 applications from "qualified personnel" who wished to move to Hainan to try their luck. For a number of years after the establishment of the new province and SEZ, about 40,000 people officially migrated to Hainan every year taking up positions as technicians, managers, administrators, and entrepreneurs.[47] Many of these have returned to the mainland but some have stayed and managed to obtain good jobs through the Hainan Provincial Center for Qualified Personnel Exchange or through their own networks. An important factor in their willingness to stay on is that Mandarin has been established as one of the most important requirements for appointment in government and other professions. The restructuring of the Hainan government and the reopening and establishment of a number of cultural and educational institutions, most notably Hainan University, have provided mainlanders with excellent opportunities to seek dominant positions.[48] As indicated above, this dominance by mainlanders and the exclusion of locals, in particular native Hainanese, from top positions is particularly evident in the political sphere.

This was not always the case. In fact in the early 1950s, native cadres controlled the island politically. The strong position of the locals stemmed from the fact that local communists had managed to keep a revolutionary base area on the island continuously from the mid-1920s until 1949 in spite of Guomindang rule, Japanese occupation and occasional orders from the central party apparatus to demobilize. By the end of the war, the Qiongya Column controlled a base area covering half of Hainan's population and commanding the support of the native population such as the Li. In these circumstances, the Nationalists gave up early on any idea to turn Hainan rather than Taiwan into an offshore base for their operations.[49]

In the 1950s, the Qiongya Column continued to be so well-entrenched in Hainan that outside authorities talked about the "independent kingdom of Feng Baiju."[50] Gradually, the Guangdong provincial party committee attempted to exert its influence by replacing local cadres with outsiders but was met with strong local resistance. Feng Baiju himself wrote a long letter to the Eight Party Congress in September 1956, complaining about provincial authorities and their interference in Hainan's affairs. When an enlarged provincal party meeting was held in February 1957 to criticize Feng Baiju, other guerilla leaders rose to support him, complaining among other things that the 1955–56 campaign against counterrevolutionaries had worked to the disadvantage of southerners. The central authorities used the campaign to send down cadres to the countryside and backward areas in 1957 as a pretext for sending large numbers of cadres from Guangdong to Hainan to lead construction projects and serve as a check on localism. In the spring of 1958, they finally managed to put down local opposition. Feng Baiju was publicly criticized and transferred to work in Guangdong. As Vogel notes, "Localism was not ended, but it was brought under firm control."[51]

The attempts to secure local influence on the affairs of Hainan proved counterproductive, and from the 1950s until the late 1970s Hainan was again regarded as "the end of the world." If it had not been because of its strategic location in the South China Sea it would probably have completely lost the attention of the center. During this period Hainan's strategic resources were directly controlled by Beijing, and the economic and political relationship entered a period of colonial dependency to the disadvantage of Hainan.[52]

When policies began to change in the early 1980s, it was still official policy to import qualified personnel to senior positions in Hainan.[53] Moreover, when the new province was established in 1988, all senior officials were appointed directly by the central authorities in Beijing. Political leaders from the mainland usually recruit their associates and subordinates from among their former staff, thereby increasing the influence of the "new mainlanders." Only Xu Shijie and Liang Xiang seem to have been an exception to this rule.

Although the central authorities have clearly continued to try to retain their grip on Hainan by controlling personnel appointments, which is even tighter than in other provinces, conflicts between the center and Hainan have occurred. For example, appointed leaders may "go native." Lei Yu's case seems to illustrate this point. He clearly worked well with native cadres whom he promoted to important positions as much as rules and regulations would allow. At the time of the car incident, he seemed to listen more to the interests of the locals than to the warnings from Guangzhou and Beijing. Liang Xiang and to a lesser degree Xu Shijie also seemed to identify with the interests of Hainan rather than the center and had to pay the price when the center resumed its control.

It is noteworthy that since 1988, Hainan has only had two vice-governors from the national minority population. The two are Wang Yuefeng (1988–91) and Wang Xueping (1991–98). This clearly indicates Beijing's reluctance to allow the local population any real power.

4 The economy of Hainan

When Hainan was declared a province and SEZ, China was in its tenth year of economic reform. The reforms are officially said to have started at the beginning of 1979, but already in 1977–78 Wan Li had begun to reform agriculture in Anhui Province, and in Sichuan Province Zhao Ziyang was experimenting with industrial reform.

Economic reform was also associated with the introduction of an open door policy. This policy involved greater economic interaction with the outside world in terms of foreign trade and economic co-operation.[1] An important part of the open door policy was the creation of SEZs.[2] Four of these were created in 1979 with the purpose of attracting foreign capital and technology. Shantou, Zhuhai and Shenzhen SEZs were located in Guangdong and the Xiamen SEZ was located in Fujian. The SEZs provided investors with preferential policies in terms of tax holidays and exemptions, access to land and infrastructure, and special privileges in import and export. The largest and most successful of these was Shenzhen, which rapidly developed from a sleepy agricultural village to an industrial dynamo in the South China region. In 1980 the Chinese authorities introduced joint venture legislation to cement the new development.

In 1984 it was also decided to give 14 cities along the coast the status of so-called open cities. This also involved special policies designed to attract foreign investment, although the open cities never obtained the full package of preferential policies that the four SEZs were granted. The 14 open cities were Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai.

Reform policies also involved stimulating new economic forms and activities outside central planning, and consequently a new private sector began to grow.[3] The private sector had been abolished during the Cultural Revolution but from the late 1970s the authorities allowed the establishment of small private businesses, the so-called *getihu*.[4] In the early 1980s, larger private businesses began to develop and were given formal recognition in the 1988 constitution.[5] During the 1980s, share-holding companies involving various property forms emerged in the urban sector. In the countryside, the so-called Village and Township Enterprises (TVEs) experienced tremendous growth.[6]

As a result of these measures, the Chinese economy entered a path of rapid economic growth. This was especially the case in the areas that were home to the SEZs and other development zones. Thus, Guangdong's economy grew by double-digit figures through the 1980s and 1990s.

Originally, Hainan was not part of this process. The island was considered too big to constitute an SEZ and the provincial authorities in Guangdong did not want to establish a competitor to Shenzhen. However, during the 1980s, when the various policies to stimulate Hainan's economy were introduced, there was a growing realization that the only way to rapidly develop the island was to introduce policies similar to Shenzhen. Due to opposition in the center to the very idea of SEZs, it took time before this realization was translated into policies. But when Deng intervened there was no turning back.

Growth rates and sectoral distribution

The baseline for Hainan's economic growth in the 1980s was low. In 1980, GDP per capita was only 354 *yuan*, about 74 percent of the national average.[7] The value of industrial production was only 361,000 *yuan*, accounting for less than a fifth of GDP. There were only 1,589 industrial enterprises and only 21 could be classified as big and middle-sized enterprises.[8] There were only 114 km railroad track and only 14,000 km of roads, of which less than 10 percent were paved. In all aspects of economic life there was a big gap between Hainan and the rest of the Chinese coastline.

In spite of official rhetoric during the 1980s, the gap between Hainan and the rest of the country widened. In 1987, per capita GDP stood at 925 *yuan*, about 83 percent of the national figure of 1,112 *yuan*.[9] Hainan experienced comparatively rapid growth in 1981 and especially in 1982, but in 1985 growth again dropped below the national average. Industry showed an erratic performance with negative growth rates in 1980–81 followed by a recovery in 1982–83 and a tremendous spurt in 1984–85 with growth rates of 43.6 percent and 33.8 percent, only to plummet to a figure of 1.8 percent in 1986.[10] In 1987, the value of industrial output was only 769 million *yuan*, less than 13 percent of GDP.[11] Food processing accounted for more than a third of the value of total industrial production, followed by chemical fibres (14 percent) and textiles (10 percent). Even though Hainan had iron mines and extensive rubber fields, industrial activities related to these raw materials only had shares of 8 percent and 4 percent, respectively, of the value of industrial production. Hainan remained an agricultural economy with a small industrial sector focused on processing agricultural products.[12] This reflects the fact that natural resources and their processing were controlled by the center and Guangdong.

In terms of infrastructure, Hainan had seen no improvement during the first half of the 1980s. There was still only 214 km of railroad track, and

Table 4.1 Size of GDP and GDP growth rates in Hainan, 1980–2005

Year	*GDP (million* yuan*)*	*Growth Rate (%)*
1980	1,933	1.8
1981	2,223	13.0
1982	2,886	23.6
1983	3,112	5.8
1984	3,718	16.9
1985	4,326	12.0
1986	4,803	8.7
1987	5,728	11.5
1988	7,700	9.7
1989	9,132	5.7
1990	10,242	10.6
1991	12,052	14.9
1992	18,492	41.5
1993	26,041	20.6
1994	33,198	11.3
1995	36,325	3.8
1996	38,968	4.7
1997	41,116	6.8
1998	44,213	8.5
1999	47,667	8.5
2000	52,682	9.0
2001	57,917	9.1
2002	64,273	9.6
2003	71,396	10.6
2004	81,966	10.7
2005	90,503	10.2

Source: *Hainan tongji nianjian 2001*, pp. 22–23; *Hainan tongji nianjian 2006*, pp. 29–30.

the length of the road system had actually dropped to 12,791 km.[13] On the whole island there were only 29,000 telephones.[14] The educational level was also very low. Only 0.35 percent of the population of the island had a tertiary education. Living standards had hardly improved, and of a population of 6.15 million, about a sixth were living at or beneath the national poverty line. In short, despite some development in the beginning of the 1980s, Hainan was still a comparatively backward economy by 1987 when it was decided to change its status from an administrative region under Guangdong to a province.

In the first years of Hainan's life as a new province and as an SEZ, economic development was rather impressive. During the 1987–93 period, Hainan's GDP increased from 5.7 billion to 26.0 billion *yuan*, an increase of 355 percent.[15] Economic growth peaked in 1992 with a growth rate of 41.5 percent, the highest yearly growth rate recorded by any Chinese province during the reform period (see Table 4.1). In 1993, Hainan's economy still recorded an impressive growth of 20.6 percent. Clearly, Hainan had moved forward to the very cutting edge of China's economy in 1993.

The economic hypergrowth had important consequences for Hainan's per capita GDP. In 1987, per capita income in Hainan amounted to a mere 746 *yuan*, compared to a national average of 868 *yuan* and a provincial average in Guangdong of 897 *yuan*. Hainan was in fact only ranked as fifteenth among China's provinces, even trailing behind provinces such as Qinghai and Tibet.[16] In the 1987–93 period, per capita national GDP on Hainan rose from below the national average to a figure of 3,328 *yuan* (i.e. almost 15 percent higher than the national average of 2,896).[17] Although still trailing behind Guangdong, especially the growth poles of the Pearl River Delta and Shenzhen with per capita GDPs of 6,949 and 14,878 *yuan*, respectively, Hainan now compared well with most other provinces and was, in terms of per capita income, the eighth richest province in China, just ahead of Fujian and Shandong and close to Jiangsu and Zhejiang (see Table 4.2).[18] If the three cities of Beijing, Shanghai, and Tianjin were excluded from the comparison, in 1993 Hainan emerged as the fifth richest province in China in terms of per capita GDP.

However, in 1994 Hainan's economic growth rate began to drop rapidly, and in 1995 the economic growth rate was for the first time since 1989 substantially lower than 10 percent (i.e. at 3.8 percent). In 1996, the economy was still in a state of stagnation with a recorded growth rate of only 4.7 percent. The main reason was that the greatest source of economic growth in the early 1990s had been property development and the construction sector. When the property development bubble collapsed in 1994, the whole sector contracted dramatically and Hainan experienced a serious financial crisis. The economic stagnation occurred at a time when most other coastal provinces continued their rapid economic growth. Thus, Jiangsu, Zhejiang, and Fujian recorded growth rates above 15 percent until 1995 and above 10 percent until 2000 (see Table 4.3).

As a result, Hainan began to lose ground compared to other provinces. Hainan's downturn lasted until 1997, when the economy began to improve again. By 2005, the growth rate had gradually increased to 10.2 percent, slightly above the national average, although still trailing behind other coastal provinces such as Fujian, Guangdong, Zhejiang, and Shandong.

Due to its rapid economic downturn, Hainan soon lost its position among the top 10 Chinese provinces in terms of per capita GDP. As shown in Table 4, in 1996 the island had a per capita GDP of 5,500 *yuan* and had sunk below the national average (5,634 *yuan*). The province had in fact dropped to number 11 measured in per capita GDP and had been overtaken by all coastal provinces with the exception of Guangxi and Hebei. Even inland provinces such as Hubei and Xinjiang were about to catch up with Hainan. The province had truly lost its status as a cutting edge area in China's economic boom.

In 1997, Hainan's economy began to rebound, but not at a rate sufficient to change the province's position among the less well-to-do Chinese provinces in terms of per capita GDP, and the gap between it and the more

Table 4.2 Provincial per capita GDP in selected years (in *yuan*)

Province	*1993*	*1996*	*2000*	*2005*
Shanghai	11,700	22,275	34,547	51,474
Beijing	8,240	15,044	22,460	45,444
Tianjin	6,075	12,270	17,993	35,783
Guangdong	4,938	9,513	12,885	24,435
Liaoning	4,509	7,730	11,226	18,983
Jiangsu	3,958	8,447	11,773	24,560
Zhejiang	3,940	9,455	13,461	27,703
Hainan	3,328	5,500	6,894	10,871
Fujian	3,310	8,136	11,601	18,646
Shandong	3,133	6,834	9,555	20,096
Heilongjiang	3,048	6,468	8,562	14,434
Xinjiang	2,980	5,167	7,470	13,108
Jilin	2,685	5,163	6,847	13,348
Hebei	2,485	5,345	7,663	14,782
Hubei	2,339	5,122	7,188	11,431
Qinghai	2,255	3,748	5,087	10,045
Inner Mongolia	2,176	4,259	5,872	16,331
Shanxi	2,155	4,220	5,137	12,495
Ningxia	2,013	3,731	4,839	10,239
Hunan	1,915	4,130	5,639	10,426
Shaanxi	1,791	3,313	4,549	9,899
Guangxi	1,789	4.081	4,319	8,788
Sichuan	1,785	3,763	4,784	9,060
Jiangxi	1,782	3,715	4,851	9,440
Henan	1,778	4,032	5,444	11,346
Yunnan	1,704	3,715	4,637	7,835
Anhui	1,673	3,881	4,867	8,675
Tibet	1,642	2,732	4,559	9,114
Gansu	1,540	2,901	3,838	7,477
Guizhou	1,232	2,093	2,662	5,052
Chongqing	n.a.	n.a.	5,157	10,982
National average	2,896	5,634	7,078	14,040

Sources: Numbers for 1993 are from *Zhongguo tongji zhaiyao 1995*, p. 11; numbers for 1996 are from *Da kua yue* (Great stride across) (Beijing: Zhongguo tongji chubanshe, 1997), pp. 238 and 312; numbers for 2000 are found in *Zhongguo tongji nianjian 2001*, pp. 49 and 59; for 2005 in *Zhongguo tongji nianjian 2006*, pp. 57 and 66.

Note: Chongqing appears for the first time as a separate provincial unit in the 1998 statistics.

developed Chinese provinces was actually increasing. For example, Fujian, which in 1993 had a per capita GDP slightly less than Hainan (0.5 percent), by year 2000 had a per capita GDP which was 68 percent higher than that of Hainan. This trend had become even more evident by the year 2005, with Fujian's per capita GDP being 72 percent higher than Hainan's. With regard to other coastal provinces, such as Zhejiang and Shandong, the gap had widened even more.[19]

Table 4.3 Provincial and national growth rates in China, 1990–2005 (in percent)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
National	3.8	9.2	14.2	14.0	13.1	10.9	10.0	9.3	7.8	7.6	8.4	8.3	9.1	10.0	10.1	10.2
Beijing	5.4	7.5	11.6	12.1	13.5	12.4	10.9	9.6	9.8	10.2	11.0	11.7	11.5	11.1	14.1	11.8
Tianjin	2.5	4.4	11.7	12.1	14.3	14.9	14.3	12.1	9.3	10.0	10.8	12.0	12.7	14.8	15.8	14.7
Hebei	4.7	9.0	13.9	16.4	14.9	13.9	13.5	12.5	10.7	9.1	9.5	8.7	9.6	11.6	12.9	13.4
Shanxi	5.1	3.3	12.8	12.8	9.4	11.0	11.1	10.5	9.0	5.1	7.8	10.1	12.9	14.9	15.2	12.6
Inner Mongolia	8.2	7.5	11.1	10.6	10.1	9.1	12.7	9.7	9.6	7.8	9.7	10.6	13.2	17.6	20.9	23.8
Liaoning	0.3	5.5	11.7	14.7	11.2	7.1	8.6	8.9	8.3	8.2	8.9	9.0	10.2	11.5	12.8	12.3
Jilin	3.5	4.8	13.0	14.2	14.3	9.7	13.7	9.2	9.0	8.1	9.2	9.3	9.5	10.2	12.2	12.1
Heilongjiang	4.5	3.9	6.5	5.8	10.8	9.6	10.5	10.0	8.3	7.5	8.2	9.3	10.2	10.2	11.7	11.6
Shanghai	3.5	7.0	14.9	14.9	14.3	14.1	13.0	12.7	10.1	10.2	10.8	10.5	11.3	12.3	14.2	11.1
Jiangsu	4.4	6.9	26.2	20.1	16.5	15.4	12.2	12.0	11.0	10.1	10.6	10.2	11.7	13.6	14.8	14.5
Zhejiang	4.0	15.4	18.9	25.7	20.0	16.7	12.7	11.1	10.1	10.0	11.0	10.6	12.6	14.7	14.5	12.8
Anhui	3.2	–3.7	17.4	22.3	20.7	14.3	14.4	12.7	8.5	8.1	8.3	8.9	9.6	9.4	13.3	11.6
Fujian	7.0	14.7	20.8	25.7	21.7	15.2	15.4	14.5	11.4	10.0	9.5	8.7	10.2	11.5	11.8	11.6
Jiangxi	4.9	8.2	14.8	13.7	17.0	14.5	13.4	11.5	8.2	7.8	8.0	8.8	10.5	13.0	13.2	12.8
Shandong	5.3	13.9	19.5	22.3	16.3	14.2	12.2	11.2	10.8	10.1	10.5	10.0	11.7	13.4	15.4	15.2
Henan	4.5	6.9	13.7	15.8	13.8	14.8	13.9	10.4	8.7	8.0	9.4	9.0	9.5	10.7	13.7	14.2
Hubei	2.5	4.5	12.1	12.9	15.2	14.6	13.2	13.0	10.3	8.3	9.3	8.9	9.2	9.7	11.2	12.1
Hunan	4.0	7.8	12.3	12.9	11.0	10.9	12.6	10.8	9.1	8.3	9.0	9.0	9.0	9.6	12.1	11.6
Guangdong	11.3	17.3	22.0	22.3	19.1	14.9	10.7	10.6	10.2	9.5	10.8	10.5	12.4	14.8	14.8	13.8
Guangxi	7.0	12.7	18.3	21.2	16.0	15.3	10.3	8.1	9.1	7.7	7.3	8.3	10.6	10.2	11.8	13.2
Hainan	10.6	14.9	41.5	20.6	11.3	3.8	4.7	6.8	8.5	8.5	9.0	9.1	9.6	10.6	10.7	10.2
Sichuan	3.7	7.7	12.4	13.8	11.1	10.0	9.8	10.2	9.1	5.6	9.0	9.0	10.3	11.3	12.7	12.6
Guizhou	4.2	9.9	9.1	9.9	8.5	7.5	8.9	9.0	8.5	8.3	8.7	8.8	9.1	10.1	11.4	11.6
Yunnan	8.7	6.6	10.9	10.6	11.6	11.2	10.4	9.4	8.0	7.2	7.1	6.8	9.0	8.8	11.3	9.0
Tibet	8.9	1.6	7.1	8.2	15.6	17.9	13.2	11.3	10.2	9.6	9.4	12.7	12.9	12.0	12.1	12.1
Shaanxi	4.3	10.9	8.7	13.3	8.5	9.0	10.2	9.2	9.1	8.4	9.0	9.8	11.1	11.8	12.9	12.6
Gansu	4.3	10.9	8.7	13.3	10.4	9.9	11.5	8.5	9.2	8.3	8.7	9.8	9.9	10.7	11.5	11.8
Qinghai	3.7	4.7	7.4	9.6	8.2	8.0	8.6	9.0	9.0	8.2	9.0	11.7	12.1	11.9	12.3	12.2
Ningxia	9.2	13.9	13.1	9.5	8.2	9.0	10.5	7.6	8.5	8.7	9.8	10.1	10.2	12.7	11.2	10.9
Xinjiang	9.2	13.9	13.1	9.5	10.9	9.0	6.4	11.0	7.3	7.1	8.2	8.6	8.2	11.2	11.4	10.9
Chongqing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.0	8.4	7.6	8.5	9.0	10.2	11.5	12.2	11.5

Sources: *Zhongguo tongji nianjian 1994*, p. 35; *Zhongguo tongji nianjian 1997*, p. 43; *Zhongguo tongji nianjian 2001*, p. 56; *Zhongguo tongji nianjian 2006*, pp. 62–63.

Table 4.4 Per capita GDP for China's provinces, 1999 (Nominal and PPP estimates)

Province	*Per capita GDP (RMB)*	*Per capita GDP (US$)*	*Per capita GDP (PPP, US$)*
Shanghai	30,805	3,677	15,516
Beijing	19,486	2,369	9,996
Tianjin	15,976	1,907	8,047
Zhejiang	12,037	1,437	6,062
Guangdong	11,728	1,400	5,907
Fujian	10,797	1,289	5,438
Jiangsu	10,665	1,273	5,372
Liaoning	10,086	1,204	5,080
Shandong	8,673	1,035	4,369
Heilongjiang	7,660	914	3,858
Hebei	6,932	828	3,491
Hubei	6,514	778	3,281
Xinjiang	6,470	772	3,259
Hainan	6,383	762	3,215
Jilin	6,341	757	3,194
Inner Mongolia	5,350	639	2,695
Hunan	5,105	609	2,571
Henan	4,894	584	2,465
Chongqing	4,826	576	2,431
Shanxi	4,727	564	2,381
Anhui	4,707	562	2,371
Qinghai	4,662	557	2,348
Jiangxi	4,661	556	2,348
Ningxia	4,473	534	2,253
Sichuan	4,452	532	2,242
Yunnan	4,452	532	2,242
Tibet	4,262	509	2,147
Guangxi	4,148	495	2,089
Shaanxi	4,101	490	2,066
Gansu	3,668	438	1,847
Guizhou	2,475	295	1,247
National average	6,534	780	3,291

Source: Hu Angang, Zou Ping and Li Chunbo, 1978–2000 nian: Zhongguo jingji shehui fazhan de diqu chaju (1978–2000: Regional differences in China's economic and social development), in Ru Xin, Lu Xueyi and Dan Tianlun (eds.), *2001 nian: Zhongguo shehui xingshi fenxi yu yuce* (2001: analysis and forecast of China's social situation) (Beijing: Shehui kexu wenxian chubanshe, 2001), pp. 167–184.

Hu Angang, Zou Ping, and Li Chunbo have published PPP-based estimates of per capita GDP at the provincial level in China for the year 1999. According to these estimates, Hainan had a per capita GDP of US$ 3,215 in 1999 (see Table 4.4).

This was below the national average of 3,291 and only a fifth of the per capita GDP of Shanghai. According to Hu Angang et al., if Hainan had been an independent country, it would be rated as only 131 on a list of all the economies of the world. Shanghai with a per capita GDP of US$ 15,516 would be listed as 45 in the world, above all East European countries and at a level with Spain and Greece.[20] Hu Angang et al. divides China into four worlds in terms of economic development.[21] With per capita GDPs of US$ 15,516 and US$ 9,996, respectively, above the World Bank's upper middle income level, Shanghai and Beijing belong to the first world. The Pudong development zone boasts a per capita GDP of US$ 25,472, measured in PPP, which is even higher than Germany's and on the same level as Denmark and Canada. China's second world consists of coastal provinces such as Fujian, Zhejiang, Jiangsu, Liaoning, and Tianjin. They all have a per capita GDP well above the level of lower middle income countries – but below upper middle income level – in the World Bank classification scheme. The third world is the vast Chinese countryside and provinces and areas with low income level and relatively little development (*bijiao bu fada de diqu*). The fourth world is composed of the poor national minority areas in the western part of China. According to these definitions, Hainan belongs to the third world – not only in an international context but also in an internal Chinese one. Had Hainan been able to keep up its growth momentum of the early 1990s, it would have been part of the promising second or perhaps even the first world along with Shanghai, Beijing, and the SEZs of Shenzhen and Pudong.[22]

Agriculture

Traditionally, agriculture was the dominant sector in Hainan's economy. In 1988, agriculture accounted for as much as 49.95 percent of provincial income and 62.0 percent of the labour force. Industry was in general less developed, only providing 13.04 percent of Hainan's income, followed by the commercial sector, construction, and, finally, transport and communications.[23]

Since then, agriculture has seen its share of GDP fall to 32.96 percent in the year 2005. This is a fall of 16.99 percentage points compared to 1988. Industry had increased its share to 19.07 percent of provincial GDP by the year 2005.[24] The commerce and catering industry contributed 11.79 percent, and construction and property development 10.69 percent of Hainan's GDP. Thus these sectors contributed 74.51 percent to provincial GDP, leaving finance and insurance with a share of 1.36 percent, other social services with 14.56, and finally transport, post, and telecommunication services with 9.57 percent. In sum, agriculture still accounts for the greatest relative share of provincial GDP.[25]

The value of total output of the agricultural sector (farming, forestry, animal husbandry, and fishery) amounted to 47.6 billion *yuan* in the year 2005. Farming accounted for 18.0 billion *yuan* or 37.8 percent of the value of agricultural output. Fishery contributed 13.2 billion *yuan* (27.7 percent) and forestry came in third, accounting for 5.9 billion *yuan* (12.4 percent) of total agricultural output in 2005.[26]

Table 4.5 Main agricultural products (in tonnes)

	1980	*1987*	*1998*	*2004*
Grain	1,158,900	1,335,000	2,301,200	1,965,700
Sugar cane	659,300	261,400	3,537,400	4,178,900
Vegetables	146,400	402,400	2,231,600	3,611,200
Rubber	70,326	158,239	280,369	329,796
Oilbearing crops	22,100	44,400	95,000	90,800
Fruits	27,700	147,166	566,279	1,434,490
Pork, beef & Mutton	45,000	107,405	228,340	389,518
Aquatic products	59,073	112,126	597,676	1,358,484

Source: *Hainan 50 nian* (Hainan 50 Years) (Beijing: Zhongguo tongji chubanshe 1999, p. 547); *Hainan tongji nianjian 2006*, pp. 265–295.

Similar to other Chinese provinces during the Maoist period, agriculture in Hainan focused on grain. Grain production reached an output of 1.52 million tons in 1975. Since then, grain production has lost its dominant position to sugar and vegetable production. A number of factors play a role in the declining influence of grain production. First, the total sown area for grain has dropped from 690,033 in 1975 to 423,741 in 2005.[27] Second, already in the beginning of the 1980s, the authorities stressed the need to diversify agricultural production, realizing that Hainan's comparative advantage should probably be based on growing cash crops and tropical products. Third, backward production methods have predominated outside the state farm sector on the island. In the montainous areas of the island, peasants (mostly belonging to the Li minority) have used slash-and-burn techniques, causing depletion of the soil. Fourth, part of the land suffers from low water and fertilizer holding capacity.[28] Finally, seasonal combinations of drought and heavy rainfall often affect agriculture negatively. Due to a combination of these factors, in 2005 grain production in Hainan was only 3,696 kg per hectare and was thus lower than production per hectare in neighboring Guangdong (5,171 kg per hectare).[29]

Early documents concerning the development of Hainan realized the difficulties in grain production and – as mentioned above – the central authorities in 1980 had agreed to supply the island with substantial amounts of grain to feed its population. It was also realized that perhaps it would make more sense to prioritize tropical crops such as sugarcane, pepper, cashew nuts, and rubber. In 2004, Hainan produced 1,965,700 tons of grain – about 70 percent more than the 1980 output (see Table 4.5). But during the same period, sugar cane production increased more than 6-fold from 659,300 tons to 4,178,900 tons, vegetables increased 25-fold from 146,000 tons to 3,611,000 tons and fruit production saw a dramatic 51-fold increase from 27,700 tons to 1,434,490 tons.[30]

In the agricultural sector, rubber production used to weigh heavily. In 1987, it accounted for almost 40 percent of the value of all marketized rural production, four times as much as the value of the marketized part of Hainan's grain production.[31] As illustrated above, during the 1990s, tropical crops such as sugarcane, vegetables and fruits increased in importance, but rubber continued to be dominant in the state farm sector for many years. In the statistics, rubber production is usually listed under forest products. Like sugar, rubber generates substantial income, since about 99 percent of rubber production is marketed.

Land reclamation and rubber production

The story of the rise and development of Hainan's rubber production is illustrative of the evolving relationship between Hainan and the center.

Rubber production on a big scale began in Hainan in the 1950s when the then-prevailing international embargo made it difficult for China to import this strategic material and when China in general pursued an extensive program of import substitution.[32] The labour force was provided in the form of large-scale resettlement of mainlanders, mostly demobilized soldiers, on "reclamation farms."[33] By the mid-1970s there were 90 state farms on the island with a population of over one million, covering an area of 360,000 hectares. The farms continued to be dedicated to monoculture rubber production, and the output was sold through state channels at controlled prices. The state farms operated independently of the Hainan authorities under the direction of the Land Reclamation Bureau (*Nongken ju*). Their investments were approved and allocated by the central Bureau in Beijing, and any profits or losses were also handled internally by the state farm *xitong*. The state farms provided all the necessary services, including education, to their residents, who were called *nonggong* "workers" and not *nongmin* "farmers," and they did not pay any taxes to the local authorities.[34] In sum, Hainan was placed in a peculiar situation with an agricultural sector dominated by state farms that was incorporated into a vertical chain of command stemming directly from Beijing and circumventing the Hainan authorities.

Such an arrangement was doomed to cause friction. The *nonggong* on the state farms looked down on the *nongmin* in the production teams in the surrounding villages, and the *nongmin* on their part resented that the *nonggong* were equipped with superior machinery and technology. There were also disputes over land which was no longer plentiful. The contradictions were also reflected in disputes at higher levels between the Hainan regional government and the Land Reclamation Bureau, which almost rivalled the regional government in size. In 1980, the situation was so confrontational that Wang Zhen, former head of land reclamation work in Beijing, and Xi Zhongxun, first party secretary in Guangdong, had to mediate. State farms were asked to stop expanding into the land of the surrounding villages and they were to make an effort to share their technology and superior production techniques with the peasants. But major problems still remained.

One of the more important of these problems was related to the fact that almost all of Hainan's rubber production was shipped to the mainland to be processed in factories there. Locals felt that in this way they were deprived of one of Hainan's most important resources and argued that some of China's rubber producing industries should be located on Hainan. Some also felt that the original strategic imperative for forced import-substitution no longer applied. As part of the transformation process of Hainan's economic structure and administrative setup, the state farms should be allowed to change their function as centrally-directed production units to economic decision-making units responsible for their own financial results, which could diversify their production if they so wished.

In short, it was argued that as part of the discussion of granting Hainan more independence, the center should reconsider its long-term justification of keeping the farms as centrally-directed enclaves separate from the provincial economy.

In recent years rubber has lost its former dominant position, and its share of the value of total agricultural production has fallen to 11.8 percent. This is not only related to the heavy typhoon damage to about one-third of the plantations in 1989, but is also partly due to the farmers finding commercial crops and livestock more profitable.

Industry

In 1999, the value of industrial output estimated in current prices amounted to 25.47 billion *yuan*. This is an increase of about 800 percent since 1988, but still only constituted about 0.23 percent of China's total industrial production. In 2004, the industrial output value estimated in current prices had increased to 42.94 billion *yuan*, a 68.6 percent increase since 1999. Despite the increase, Hainan's percentage contribution to China's total industrial production in current prices had decreased, in 2004 constituting only about 0.19 percent of the total industrial production of China.[35]

Thus, the industrial base is still weak. It is dominated by small enterprises, mostly within light industry. In 2004, 51.5 percent of all industrial production stemmed from light industrial production compared to 32.4 percent for the whole country.[36] A large part of this light industrial production consists of the manufacturing of agricultural products.[37]

Hainan has seen significant growth in its food and drink industry. An important part of this is sugar processing, which has increased from 57,700 tons in 1980 to 275,100 tons in 2005.[38] Salt production has fallen, but Hainan still has the biggest tropical salt industry in China. Mining (i.e. iron raw mineral), also continues to be an important industrial activity and has increased by 17.7 percent in the period from 1980 to 2005. Most of the products are still shipped out of Hainan and processed on the mainland, although the production of steel products has increased in recent years. But steel production is hampered by the lack of coking coal.[39] Since the

Table 4.6 Output of major industrial products, 1980, 1998, and 2005

	1980	*1998*	*2005*
Mining (raw mineral) (tons)	3,579,000	3,990,700	4,212,000
Cement (tons)	194,400	2,231,200	4,425,500
Electricity (kwh)	422,220,000	3,552,000,000	8,163,950,000
Natural gas (100 mill. Cu.m)	n.a.	n.a.	16,567
Crude petroleum oil (tons)	n.a.	n.a.	100,677
Sugar (tons)	57,700	279,100	275,100
Salt (tons)	276,800	196,800	166,900
Chemical fertilizer (tons)	1,800	248,000	626,458
Coal (tons)	23,100	15,000	n.a.
Steel products (tons)	n.a.	39,900	148,600
Cloth (million m)	5	11	11
Paper and Paperboard (tons)	3,100	6,797	12,722

Source: *Hainan 50 nian* (Hainan 50 Years) ((Beijing: Zhongguo tongji chubanshe 1999), p. 549); *Hainan tongji nianjian 2001*, pp. 296–299; *Hainan tongji nianjian 2006*, pp. 322–328.

mid-1990s, the production of chemical fertilizer has turned into a significant and growing industry. Despite efforts to develop a modern high-technology, Hainan has not yet been able to take off in this sector, among other things due to lack of a qualified workforce.

State-owned enterprises

When Hainan was given provincial status, 71.4 percent of all industrial output came from state-owned enterprises (SOEs), mainly located in the mining business.[40] Since 1990–91 there has been a shift in production value from the state sector to "other sectors," including private industry, and the joint venture sector. However, the state sector enterprises – and especially various forms of shareholding companies – still dominated the economy in 2005. Thus, in 2005 the output value of state-owned and state-holding enterprises, as a percentage of Hainan's total gross industrial output value of all state-owned and non-state-owned industrial enterprises (above designated size), accounted for 50.4 percent (see Table 4.7).[41]

In this respect Hainan appears to be different from the rest of coastal China. For example, in Zhejiang the state sector only accounts for 14.7 percent of industrial output value, and in Guangdong the share of total industrial output value of state enterprises has shrunk to 17.7 percent. In fact, in terms of the distribution of industrial output, Hainan resembles more the inner provinces. In sum, large SOEs still play a major role in the industry in Hainan, the main reason being that the mining industry, such as the important Shilu mining complex, has remained under state control.[42]

The dominance of the public sector is also reflected in the investment structure. In the mid-1990s, the public sector accounted for 89 percent of all fixed assets on Hainan. Even though great efforts were made to develop a

Table 4.7 Share of state-sector of total gross industrial output value of all state-owned enterprises and non state-owned industrial enterprises (above designated size)

Province	*Share of total industrial output (in percent)*
Beijing	50.9
Tianjin	38.8
Shanghai	38.1
Chongqing	51.4
Jiangsu	15.4
Zhejiang	14.7
Fujian	18.8
Shandong	24.2
Guangdong	17.7
Liaoning	53.3
Jilin	66.8
Heilongjiang	76.5
Hebei	36.6
Shanxi	52.2
Henan	38.5
Anhui	53.0
Jiangxi	51.4
Hubei	52.1
Hunan	44.3
Inner Mongolia	52.4
Guangxi	48.1
Sichuan	40.3
Guizhou	68.3
Hainan	50.4
Yunnan	64.4
Shaanxi	68.6
Gansu	79.1
Qinghai	81.2
Ningxia	55.4
Xinjiang	82.5
Tibet	66.7

Source: *Zhongguo tongji nianjian 2006*, pp. 516 and 526.

non-state economy in the form of a foreign-funded sector and a private sector, the authorities have been reluctant to fundamentally change the state sector's dominant position.[43] In 2005, the original value of fixed assets of the public sector (including cooperative and shareholding companies) accounted for 51.4 percent of total value of fixed assets.[44]

In order to expand its industrial base the Hainan authorities are currently pursuing a strategy of building 40 big key projects.[45] They include the key investment project of Shihua Oil Refining with a total investment of 11.6 billion *yuan* and an annual capacity of 8 million tons refined oil; the Dongfang 1–1 Gasfield with a total investment of 2.24 billion *yuan* and a production capacity of 2.4 billion tons; Haiyou Natural Gas Fertilizer Plant with a total investment of 2 billion *yuan*; Haikou Medical Valley with total investment of 4.1 billion *yuan*, and 38 pharmaceutical companies planning to participate; Yangpu Jinhai Woodpulp factory with a total investment of 9.8 billion *yuan* and an annual production capacity of 600,000 tons. Among these key projects are also foreign-funded projects such as Samsung Optical Communication based on an investment of 290 million *yuan* by Samsung headquarters in Korea.

Future industrial key projects include a 2.56 billion *yuan* investment in a methanol plant, which is projected to produce 1.2 million tons of methanol a year and will be part of the Dongfang Chemical City project; investing 1.08 billion *yuan* in producing motor engines for the Mazda car plant in Haikou; investing 4 billion *yuan* in developing Le Dong gas field and two gas fields run by Zhong Hai oil company. Among these projects are also plans to expand Yangpu Jinhai Woodpulp factory to achieve an annual paper pulp production of 1.6 million tons. This will expand total investment in the plant to 16 billion *yuan*. A number of future projects are related to the tourist industry and, for example, include an 8 billion *yuan* project for developing Haitang Bay into a "National Seashore" and a 5 billion *yuan* project for building tourist and conference facilities in Boao.

The above investment examples show that the Hainan authorities aim to combine light industrial development and tourism with capital intensive projects within heavy industry. This is a strategy that may not fit with the island's resource endowment as well as with the often stated environmental concerns.

"The state takes a lot"

One of the explanations offered in the mid-1980s to explain the backwardness of Hainan was that "the state had taken a lot and contributed little to Hainan."

During the Second World War, the Japanese invested hundreds of millions of *yuan* in railways, roads, airfields, and the mining industry and had sent a substantial number of experts to the island to provide technological assistance. After 1949, the state allocated investments to Hainan that were not significantly less than investments in other provinces and regions.[46] Investments were around 60 million *yuan* in 1957, the year before the Great Leap Forward. They increased to 342 million *yuan* in 1980 and then stagnated for a couple of years and even fell in 1983, but picked up again in 1984 and especially in 1985 with state capital construction investment exceeding 1 billion *yuan*. However, a sectoral breakdown shows that until 1980, the Land Reclamation Bureau (i.e. the state farms), took the lion's part of state investment, leaving less than half of total investment to state enterprises in the industrial sector.[47] If centrally allocated funds for the military are factored out, then the residual for industrial construction and construction of infrastructure and communications is even smaller and one begins to understand the complaints.[48] At the beginning of the 1980s, the state farm's – the *xitong*'s – share of total state investment fell to a third and further down to a fifth during the first years of the seventh five-year-plan. But the category of "other systems," which probably includes defense, rose to 213 million in 1988, almost 20 percent of total state investment, so that the state farm system and the defense system still took a considerable part of state investment on the island.[49] During the entire 1952–88 period, state capital construction investment amounted to 9.8 billion *yuan* of which the *nongken* system took 36.9 percent and industry only 22.4 percent.

However, when looking at the composition of the public budget of Hainan, the impression of the center exploiting a poor province becomes somewhat more nuanced. In fact, Hainan is one of the 13 provinces in China that under the system of revenue-sharing actually receives transfers from the center. Since 1978, Hainan's budget expenditures have grown more rapidly than revenues, resulting in a growing deficit in public finances.[50] In order to make up for the deficit, Hainan received annually negotiated budgetary supplements from the center as well as special grants.[51] However, these transfers from the center could not completely compensate for the fact that Hainan remained unable to retain full control of its own strategic resources. Still, transfers from the center (i.e. subsidy revenue of central government, including fund subsidy) are increasing, as expenditure outnumber revenue. For example, in the period from 2003 to 2005, transfers from the center rose from 5.5 billion *yuan* to 8.6 billion *yuan* (i.e. by 54.4 percent).[52]

Non-state sector

Hainan's economic development has been stimulated by rapid growth in the private and individual economy. In fact, until the mid-1990s the development of the private sector in Hainan appeared to have gone further than in any other province in China. However, the downturn of the economy had negative consequences for the private sector and Hainan no longer belongs to the cutting edge in this field.

In Hainan as in the rest of the country, the private sector completely disappears from the statistics in 1965–66, only to reappear in 1976. From 1979, the private economy, except for the years 1982–83, continuously enlarged its share of the economy, and by 1993 it employed 276,000 people, 8.5 percent of the island's labour power, which was twice as high as the national average.

From 1993 to 1999, employment in Hainan in the private sector rose by 127,000, to a total of 403,000, constituting 12.4 percent of the employed workforce (*congye ren*) in Hainan (see Table 4.8). This is a proportion slightly above the national average, which in 1999 stood at 11.7 percent.[53] In 2005, the national average had risen to 14.1 percent, whereas in Hainan, the proportion of the private workforce to the total workforce was 15.4 percent (see Table 4.9). However, Hainan's private sector employment as a proportion

Table 4.8 Relative size of the private sector at the provincial level in China, 1999

Province	*Total workforce (1)*	*Total private workforce (2)*	*(2) as % of (1) (3)*
Beijing	6,219,000	443,000	7.1
Tianjin	4,211,000	690,000	16.2
Hebei	33,999,000	8,484,000	24.9
Shanxi	14,343,000	1,865,000	13.9
Inner Mongolia	10,170,000	1,863,600	18.3
Liaoning	17,964,000	3,483,000	19.4
Jilin	11,028,000	2,127,000	19.3
Heilongjiang	16,799,000	3,516,000	20.9
Shanghai	6,773,000	1,396,000	20.6
Jiangsu	35,958,000	4,981,000	13.8
Zhejiang	26,609,000	4,733,000	17.8
Anhui	33,125,000	3,925,000	11.8
Fujian	16,309,000	1,769,000	10.9
Jiangxi	19,613,000	2,276,000	11.6
Shandong	48,986,000	8,461,000	17.3
Henan	52,050,000	4,436,000	8.9
Hubei	25,724,000	4,414,000	17.2
Hunan	34,961,000	4,599,000	13.2
Guangdong	37,605,000	5,131,000	13.6
Guangxi	24,815,000	1,924,000	7.8
Hainan	3,262,000	403,000	12.4
Chongqing	16,394,000	1,506,000	9.2
Sichuan	44,823,000	3,094,000	6.9
Guizhou	19,759,000	894,000	4.5
Yunnan	22,734,000	1,592,000	7.0
Tibet	1,222,000	67,000	5.5
Shaanxi	17,809,000	2,574,000	14.5
Gansu	11,856,000	1,173,000	9.9
Qinghai	2,412,000	199,000	8.3
Ningxia	2,708,000	234,000	8.6
Xinjiang	6,696,000	786,000	11.7
National	705,860,000	82,630,000	11.7

Sources: Calculated on the basis of *Zhongguo tongji nianjian 2000*, pp. 118–119.

Note: Total private workforce includes private enterprises (*siying qiye*) and individual businesses (*getihu*) in urban areas and private enterprises and individual businesses in rural areas – i.e. the figures do not include TVEs and foreign funded enterprises.

of the total workforce was still significantly lower than in many other coastal provinces, with the exception of Guangxi and Fujian (see Table 4.9). In Zhejiang, for example, the proportion of the private workforce to total workforce in 2005 was 26.7 percent, and in Guangdong it was 21.6 percent.[54]

To be sure, a high percentage in this respect does not necessarily indicate a highly developed economy. In the case of the North Eastern provinces, the development of the private sector in recent years is related to the widespread laying off of staff and workers due to the ongoing restructuring of SOEs

Table 4.9 Relative size of the private sector at the provincial level in China, 2005

Province	*Total workforce (1)*	*Total private workforce (2)*	*(2) as % of (1) (3)*
Beijing	9,204,000	3,792,000	41.2
Tianjin	4,269,000	1,142,000	26.8
Hebei	34,673,000	5,116,000	14.8
Shanxi	14,764,000	1,646,000	11.1
Inner Mongolia	10,411,000	1,505,000	14.5
Liaoning	19,786,000	5,348,000	27.0
Jilin	10,994,000	1,770,000	16.1
Heilongjiang	16,258,000	2,508,000	15.4
Shanghai	8,559,000	5,000,100	58.4
Jiangsu	38,777,000	11,184,000	28.8
Zhejiang	32,029,000	8,550,000	26.7
Anhui	34,847,000	4,325,000	12.4
Fujian	18,685,000	2,246,000	12.0
Jiangxi	21,075,000	3,020,000	14.3
Shandong	51,108,000	8,091,000	15.8
Henan	56,624,000	4,128,000	7.4
Hubei	26,763,000	3,514,000	13.1
Hunan	36,583,000	3,970,000	10.9
Guangdong	47,021,000	10,157,000	21.6
Guangxi	27,031,000	2,471,000	9.1
Hainan	3,777,000	580,000	15.4
Chongqing	17,208,000	1,964,000	11.4
Sichuan	46,035,000	4,886,000	10.6
Guizhou	22,158,000	1,103,000	5.0
Yunnan	24,613,000	2,551,000	10.4
Tibet	1,404,000	165,000	11.8
Shaanxi	18,829,000	3,040,000	16.1
Gansu	13,476,000	1,041,000	7.7
Qinghai	2,676,000	581,000	21.7
Ningxia	2,996,000	420,000	14.0
Xinjiang	7,643,000	1,430,000	18.7
National	758,250,000	107,244,100	14.1

Source: *Zhongguo tongji nianjian 2006*, pp. 128–129.

Note: Figures do not include employees in TVEs and foreign funded enterprises.

which has hit this region particularly hard. Many of the unemployed have attempted to find work in private enterprises or have tried to set up small businesses. Similarly, in Hainan the development of the private sector is claimed to have solved the problem of rising unemployment.[55] However, in other coastal provinces such as Jiangsu and Zhejiang, the private sector is the result of a booming new economy, and Hainan's failure to keep up with the coastal provinces with regard to the private sector development does indicate a comparative weakness.

Hainan's private sector development is primarily located in the urban areas. In the early 1990s Hainan was at the forefront of urban private sector

Table 4.10 The development of the urban private sector in Hainan, 1977–2005

	Urban workforce (1)	*Private urban workforce (2)*	*(2) as % of (1) (3)*
1977	802,400	900	0.1
1978	817,500	4,000	0.5
1979	847,200	7,100	0.8
1980	865,300	13,200	1.5
1981	939,200	21,800	2.3
1982	962,200	15,600	1.6
1983	981,200	20,600	2.1
1984	998,700	29,200	2.9
1985	1,041,500	45,400	4.4
1986	1,064,800	47,500	4.5
1987	1,069,000	55,600	5.2
1988	1,110,100	75,300	6.8
1989	1,124,000	76,400	6.8
1990	1,145,200	76,800	6.7
1991	1,230,200	129,000	10.5
1992	1,263,000	137,000	10.8
1993	1,347,900	223,500	16.6
1994	1,541,600	236,400	15.3
1995	1,316,400	233,100	17.7
1996	1,272,300	230,200	18.1
1997	1,319,200	278,000	21.1
1998	1,149,300	304,400	26.5
1999	1,116,400	299,500	26.8
2000	1,105,700	310,900	28.1
2001	1,088,600	323,800	29.7
2002	1,163,600	414,100	35.6
2003	1,200,700	465,300	38.8
2004	1,308,300	464,700	35.5
2005	1,265,214	518,017	40.9

Sources: *Hainan tongji nianjian 2001*, p. 69; Kjeld Erik Brødsgaard, "State and Society in Hainan: Liao Xun's Ideas on 'Small Government, Big Society,'" in Kjeld Erik Brødsgaard and David Strand, *Reconstructing Twentieth-Century China: State Control, Civil Society, and National Identity* (Clarendon Press, Oxford, 1998), p. 206; *Hainan tongji nianjian 2005*, p. 57; *Hainan tongji nianjian 2006*, p. 55.

development in China, ahead of even Guangdong, Liaoning, and Zhejiang. Expressed in percentages, the biggest yearly growth took place between 1990 and 1991 when the private urban workforce grew from 76,800 to 129,000 or by 69 percent (see Table 4.10). In 1993, there was a renewed rapid increase from 137,000 to 223,500 or a 63 percent increase. Since then, Hainan has been overtaken by most other provinces in terms of urban private sector development. In several provinces, the urban private sector has doubled or tripled in the period 2000 to 2005 (e.g. in the case of Zhejiang and Jiangsu), but Hainan has only registered a 55.3 percent increase (see Tables 4.11–4.12). As a consequence, by 2005, the proportion of the workforce in the

Table 4.11 Relative size of urban private sector in China, 2000

Province	*Urban workforce (1)*	*Private urban workforce (2)*	*(2) as % of (1) (3)*
Beijing	4,563,000	245,000	5.4
Tianjin	2,386,000	368,400	15.4
Hebei	7,341,000	1,853,000	25.2
Shanxi	4,305,000	487,000	11.3
Inner Mongolia	3,851,000	1,168,600	30.3
Liaoning	8,466,000	2,443,000	28.8
Jilin	4,379,000	1,034,000	23.6
Heilongjiang	7,218,000	1,664,000	23.0
Shanghai	4,175,000	675,000	16.2
Jiangsu	8,708,000	1,777,000	20.4
Zhejiang	5,921,000	2,077,000	35.1
Anhui	5,751,000	1,724,000	29.9
Fujian	4,161,000	902,000	21.7
Jiangxi	3,881,000	886,000	22.8
Shandong	10,222,000	2,153,000	21.1
Henan	8,593,000	1,253,000	14.6
Hubei	7,261,000	1,825,000	25.1
Hunan	6,060,000	1,485,000	24.5
Guangdong	10,759,000	3,167,000	29.4
Guangxi	3,850,000	897,000	23.2
Hainan	1,097,000	302,000	27.5
Chongqing	2,839,000	711,000	25.3
Sichuan	6,468,000	1,180,000	18.2
Guizhou	2,433,000	419,000	17.2
Yunnan	3,465,000	663,000	19.1
Tibet	226,000	48,000	21.2
Shaanxi	4,966,000	1,325,000	26.7
Gansu	2,476,000	417,000	16.8
Qinghai	666,000	186,000	27.9
Ningxia	765,000	125,000	16.3
Xinjiang	3,184,000	581,000	18.2

Source: Calculated on the basis of *Zhongguo tongji nianjian 2001*, pp. 110–111.

urban private sector in relation to the total urban workforce was only 38.5 percent, ranking Hainan twelfth among China's provinces in terms of the relative size of the urban private sector (see Table 4.12).[56]

There are local and sectoral variations in the distribution of private economic activity in Hainan. About two-thirds of urban private business are located in the three cities of Haikou, Sanya, and Danzhou.

Private sector development in Haikou city

During the early 1990s, Haikou experienced a blooming of private business. As in the rest of the country there was some stagnation in 1989 and 1990, but from 1991 there was a new surge. In 1990, the number of employed in

Table 4.12 Relative size of urban private sector in China, 2005

Province	*Urban workforce (1)*	*Private urban workforce (2)*	*(2) as % of (1) (3)*
Beijing	7,363,000	2,307,000	31.3
Tianjin	2,484,000	543,000	21.9
Hebei	6,613,000	1,657,000	25.1
Shanxi	4,406,000	801,000	18.2
Inner Mongolia	3,503,000	1,073,000	30.6
Liaoning	8,651,000	3,679,000	42.5
Jilin	4,142,000	1,524,000	36.8
Heilongjiang	6,769,000	1,865,000	27.6
Shanghai	6,124,000	2,791,000	45.6
Jiangsu	12,152,000	5,864,000	48.3
Zhejiang	9,043,000	3,733,000	41.3
Anhui	5,455,000	2,101,000	38.5
Fujian	5,555,000	1,555,000	28.0
Jiangxi	4,687,000	1,932,000	41.2
Shandong	13,286,000	4,376,000	32.9
Henan	9,100,000	2,098,000	23.1
Hubei	7,435,000	2,317,000	31.2
Hunan	6,829,000	2,766,000	40.5
Guangdong	16,126,000	7,083,000	43.9
Guangxi	4,277,000	1,441,000	33.7
Hainan	1,217,000	469,000	38.5
Chongqing	3,539,000	1,384,000	39.1
Sichuan	8,020,000	2,894,000	36.1
Guizhou	2,817,000	711,000	25.2
Yunnan	4,104,000	1,634,000	39.8
Tibet	315,000	133,000	42.2
Shaanxi	4,458,000	1,116,000	25.0
Gansu	2,633,000	690,000	26.2
Qinghai	815,000	389,000	47.7
Ningxia	876,000	279,000	31.8
Xinjiang	3,604,000	1,157,000	32.1

Source: Calculated on the basis of *Zhongguo tongji nianjian 2006*, pp. 128–129.

the private sector in Haikou was 14,838. One year later, the number had increased to 47,743 or by about 300 percent. In 1992, the urban private workforce in Hainan grew by an additional 20 percent to 57,531 (see Table 4.13). In 1993, Haikou's private sector experienced another surge, and the number of people employed there increased to a total of 112,814, which equalled a third of the city's total labour force. When the bubble began to burst in 1994–95, there was a reduction in the private sector, both in terms of the number of people employed and in the percentage of total labour power in Haikou. In 1997, the private labour force in Haikou City numbered only 99,047, equal to about a quarter of the city's labor force. When the economy began its upswing in 1998, it was associated with a rise in private sector employment. In 2001, employment grew by 78,827, a yearly

Table 4.13 Relative size of the private labour force in Haikou City, 1987–2004

Year	*Total labour force* (1)	*Private labour force* (2)	*% of total lab. force (2)/(1)* (3)
1987	168,167	9,711	5.8
1989	195,500	15,055	7.7
1990	212,500	14,838	7.0
1991	260,668	47,743	18.3
1992	319,018	57,531	17.9
1993	386,348	112,814	29.2
1994	412,412	129,552	31.4
1995	418,062	123,684	29.6
1996	398,839	105,949	26.6
1997	393,638	99,047	25.2
1998	375,595	113,397	30.2
1999	363,944	129,364	35.5
2000	362,908	135,790	37.4
2001	436,571	213,617	48.9
2002	772,951	253,742	32.8
2003	795,570	277,277	34.8
2004	853,842	302,173	35.4

Source: For the period before 1995 calculations are based on *Hainan tongji nianjian*, various years, and Haikou Industrial and Commercial Bureau; for 1995–1999 on *Haikou tongji nianjian 1999*, p. 37, and *Haikou tongji nianjian 2000*, p. 53; for 2000–2001 on *Haikou tongji nianjian 2004*, p. 53; for 1987, and 2002–2004 on *Haikou nianjian 2005*, p. 376.

Note: In 2002 Qiongshan was merged with Haikou City. This accounts for the significant increase in Haikou's labour force during this year.

increase of 58.5 percent, and at the end of 2001 the number of people employed in private business in Haikou numbered 213,617, equal to a record high of 48.9 percent of the city's total workforce. Since then, however, the relative size of the private labor force in relation to the total labor force in Haikou city has decreased to 35.4 percent. This indicates that Haikou, in terms of private sector development, is lagging behind other urban areas in Hainan as well as major urban centers on the mainland.

Originally, Hainan statistics did not distinguish between employment in the individual economy and employment in the private economy. However, from the beginning of the 1990s, Hainan authorities started to collect figures which made it possible to form an impression of the relative size of the two forms of private economic activity.[57] Thus, in 1991, of the 46,640 people employed in the private sector, 26,282 were in the individual economy and 20,358 in the private.[58] In 1992, these figures increased to 28,450 and 20,358, respectively. With respect to investment and the size of registered capital, private enterprises already exceeded individual enterprises by far. At the end of 1992, the registered capital of the *getihu* in Haikou came to 220,360,000 *yuan* compared to 1,434,650,000 *yuan* for the private enterprises.[59] From

Table 4.14 Number of employed in individual and private enterprises in Haikou City, 1987 and 1991–2004

	Total	*Individual*	*Private*
1987	9,711	9,711	n.a.
1991	46,640	26,282	20,358
1992	57,531	28,450	20,358
1993	112,814	39,184	73,630
1994	129,552	45,673	83,879
1995	123,684	36,868	86,816
1996	105,949	36,868	69,081
1997	99,047	35,645	63,402
1998	108,593	37,779	70,814
1999	133,364	46,640	82,724
2000	135,790	73,523	62,267
2002	253,742	109,667	144,075
2003	277,277	86,852	190,425
2004	302,173	114,851	187,322

Sources: Kjeld Erik Brødsgaard, "State and Society in Hainan: Liao Xun's Ideas on 'Small Government, Big Society,'" in Kjeld Erik Brødsgaard and David Strand (eds.), *Reconstructing Twentieth-Century China: State Control, Civil Society and National Identity* (Oxford: Clarendon Press, 1998), pp. 189–215; *Haikou tongji nianjian 1999*, p. 37; *Haikou tongji nianjian 2000*, p. 53; Haikou Industrial and Commercial Bureau. Data for the years 1987, 2000, and 2002–2004 from *Haikou nianjian 2005*, p. 376.

1992 to 1993, the total number of people employed in the combined individual and private sector in Haikou doubled from 57,531 to 112,814, but in the private sector alone, employment more than tripled from 20,358 to 73,630. Through the 1990s, the private sector continued to grow more rapidly than the individual economy. By 2004, the total amount of people employed in the combined individual and private sector in Haikou had reached a level of 302,173, with the individual sector accounting for 114,851 and the private sector accounting for 187,322 (i.e. 38 percent and 62 percent, respectively, of employment in the combined private secor).[60]

The upsurge in private economic activity in 1991–93 involved a new group of private entrepreneurs. When in the early 1980s the private sector in China began to develop, it mostly attracted people who were unemployed or had a comparatively low social status.[61] However, this began to change in the late 1980s when the State Council circulated regulations that legally recognized the private sector.[62] It then became socially and politically acceptable to engage in the private sector, and therefore entrepeneurs with high educational background and status also began setting up private businesses. This pattern is also discernible in the Hainan case.

A survey conducted in 1992 in Haikou revealed that 18 percent of the private entrepreneurs in the city had a college education; 30 percent had graduated from higher middle school; 49 percent left school after junior middle school and the remainder only had a primary school background.[63]

Except for one, all the enterprises in the survey were established after 1986. This may explain the comparatively high educational level of their owners/managers. Moreover, most of the enterprises in the sample were private enterprises (62 percent). This may also be part of the explanation as entrepreneurs in private enterprises usually have a higher educational background than *getihu*.

The distribution of private business activity by sectors show that private business in Haikou in 1992 was concentrated in commerce, catering, construction work, transportation, and service. Commerce had a share of 36 percent of the total number of enterprises, considerably lower than the national average (56 percent). However, construction enterprises accounted for 14 percent of private enterprises in Haikou, significantly higher than the national average (0.4 percent). The comparatively higher number of private enterprises in the construction sector reflects the property development boom in Hainan during the period from 1991 to 1993.

Of those interviewed, two entrepreneurs were party members. That there were so few party members appears to indicate that membership of political organizations is of less importance to the average entrepreneur than occupational background and educational level. Two other explanations may be offered. The first is that the party in the wake of the Tiananmen debacle had decided not to admit private entrepreneurs into the party.[64] In this respect it is rather surprising that there were any party members in the sample. However, since they had entered the party before 1989 they were allowed to keep their membership even though they were engaged in private business. The second possible explanation is that the general thrust of the "small government big society" experiment on Hainan was to minimize the role of the party in the economy and in other aspects of society.[65]

Non-state economy in the rural areas

Township and Village Enterprises (TVEs) played an important role in China's economic development during the 1980s and 1990s. By the end of 1997 they had grown to about 20 million and had a workforce of more than 130 million. With a gross output value of 8,990 billion *yuan* they accounted for a quarter of gross domestic output. Moreover, two-thirds of the value-added of rural society, one-quarter of state financial revenue, and almost 40 percent of the value of export derived from the TVEs.[66] In fact, parts of rural China were, at the time, more internationalized than the urban SOEs.[67]

In Hainan, rural industrialization in the form of TVE development never really experienced the same rapid growth as in the rest of coastal China. From 1979 to 1983, the number of township industries and the number of employed actually fell by 64 percent and 56 percent, respectively.[68] After 1984, township industries entered a period of growth. However, the rate of growth was below that of the national growth rate for rural industry, and as the starting base was low, the result was only a gradual improvement in the position of industry in Hainan's rural sector. In 1989, the TVE sector only accounted for 17 percent of rural output. In Guangdong the share was 56.4 percent.[69] In 1993, rural enterprises numbered 118,000 and employed a workforce of 352,000. Production value had increased to 4.95 billion *yuan* accounting for 29 percent of total rural output.[70] In 1996, TVEs numbered 129,646 and employed a workforce of 484,240. Production value had increased to 13.77 billion *yuan* accounting for 45 percent of total rural output. Since then, the number of enterprises as well as the size of the workforce has decreased considerably, although there was a partial reversal of the downward trend in 1999–2000.[71] Hainan's TVEs are small and almost all privately owned. This was the case even when, in the 1990s, large collectively owned TVEs boomed in the other coastal areas of China.[72]

In short, in spite of an initial spurt in Hainan during the early 1990s, TVE development never really experienced the same rapid growth as in the rest of coastal China. The number of TVEs has decreased in recent years and the value of TVE output has stagnated since the mid-1990s. That is, private sector development in both urban and rural areas in Hainan has experienced significant setbacks since the mid-1990s. In this, as well as in other areas, Hainan no longer belongs to the cutting edge of China's push for economic development and change.

The Nongken system

The peculiar composition and structure of Hainan's economy owes much to the existence of a strong state sector in the form of the land reclamation bureau (*nongken ju*). In 1987, the 92 state farms accounted for the main part of Hainan's total employment of state-owned enterprises and 17.2 percent of the total labour force. The *nongken* system stood for 28 percent of gross value of industrial and agricultural output (GVIAO) (1.3 billion *yuan* out of 4.6 billion *yuan*), 45.3 percent of total agricultural output (1.1 billion *yuan* out of 2.7 billion), and 8.9 percent of total industrial output (0.17 billion *yuan* out of 1.9 billion).[73] It was a system within the system, totally controlled from Beijing and with a local office in Haikou the size of the regional government of Hainan.

The *nongken* system's role in Hainan's countryside peaked in 1991. Since then, the number of state farms has dropped from 97 to 92 and their total workforce has been reduced from 477,200 in 1991 to 252,156 in 2000. The system now accounts for 15 percent of the GVIAO (5.8 billion *yuan* out of 39.0 billion), 17.3 percent of agricultural output (3.0 billion *yuan* out of 17.3 billion), and 13.1 percent of total industrial production (2.9 billion *yuan* out of 21.7 billion).[74] In sum, the *nongken* system's weight in the total economy has been reduced substantially. However, it continues to play an important role and in the industrial sector the *nongken* system has increased its relative importance.

5 Foreign trade and investment

Regulations and policies

One of the main goals behind Hainan's establishment as an SEZ in 1988 was to attract investment, domestic as well as foreign, in order to accelerate the economic development of the island. Consequently, on May 4, 1988, the State Council promulgated a set of "Regulations for the encouragement of investment in the development of Hainan Island" which provided the legal framework for the preferential policies adopted to attract foreign investors. The regulations specified a range of preferential treatments towards foreign investors in terms of tax exemptions, tax deductions, and tax holidays. At the time they were promulgated, they provided the most favorable investment regulations of all economic development zones in China.

Article 3 stipulated that the Chinese state "will encourage domestic and foreign enterprises, other economic organizations and individuals to invest in the development of Hainan Island and to establish various types of economic and social undertakings." The state would protect the legal rights of these investors and would not nationalize or expropriate their property.

Article 5 specified the kind of business operations investors were allowed to invest in. They included Sino-foreign joint equity ventures, Sino-foreign cooperative enterprises, enterprises with sole foreign investment (foreign investment enterprises), and other types of enterprises permitted by law. Investors were also permitted to purchase stocks, bonds, and other negotiable securities. Finally, they could purchase business operations or participate through shares or operate enterprises through contracting or leasing.

The regulations also stipulated that land use rights could be legally transferred to investors for a period of up to 70 years. These land-use contracts were renewable. The land investors obtained in this way could be transferred and projects could be mortgaged in order to obtain bank loans. These stipulations in effect made it possible for foreign investors to "own" land in China. The first place to try out the new system on a larger scale was Yangpu Economic Development Zone (see below).

The regulations also encouraged outside investors to engage in the construction of infrastructure such as harbors, airports, highways, power stations, and water conservancy projects. Additional tax incentives were offered to such projects. Investors might engage in the operation of such specialized projects through a joint equity or a cooperative venture or through a sole foreign venture.

Taxation issues took up a large part of the regulations. The corporate tax for all enterprises in Hainan was fixed at 15 percent. Local income taxes were waived. For enterprises in certain fields, their income taxes were either reduced or exempt for a given period. The regulations gave four examples:

1 A Hainan enterprise, including foreign funded enterprises, engaged in infrastructure projects such as airports, railroads, power stations, coal mines, and water conservancy facilities scheduled to operate for 15 years or more, were exempted from income tax during the first five years of profit-making and allowed a 50 percent tax reduction from the sixth to the tenth years.
2 Those enterprises engaged in business of a productive nature, such as industry, communications, and transportation, scheduled to operate for a period of 10 years or more, were exempted from income tax during the first two profit-making years and allowed a 50 percent reduction from the third to the fifth years. Those among them recognized by the Hainan government as “technically advanced enterprises” were further allowed a 50 percent tax reduction from the sixth to the eighth years.
3 An enterprise engaged in production-type operations, such as industry and agriculture, might, at the expiry of the exemption and reduction period, pay income tax at a reduced rate of 10 percent if the output value of its exports amounted to 70 percent or more.
4 An enterprise engaged in service operations, with a total amount of investment in excess of US$ 5 million or *renminbi* 20 million and an operational horizon of 10 years or more, would be exempt from income tax the first year and levied at one-half the prevailing rate for the next two years.

In addition to these provisions concerning income tax exemption, the regulations specified that with the exception of a small number of products, Hainan Island enterprises should be exempt from product tax or value-added tax payments. In general, products of Hainan Island enterprises could be sold freely in other regions of China.

The regulations also offered incentives to foreign business in the field of foreign trade. Thus, they stipulated that foreign investment enterprises and enterprises with at least 25 percent foreign equity, which were established on Hainan, were to enjoy foreign trading rights. Machinery, equipment, raw materials, assembly parts, means of transportation, and other materials imported by a Hainan Island enterprise for use in its construction or operation should be exempted from customs duty, product tax, and value-added tax.

There were also preferential policies concerning foreign exchange income. The regulations clearly stated that the foreign exchange income of Hainan Island enterprises obtained through export could be held in cash. Enterprises were allowed to adjust their foreign exchange surplus or deficit on a foreign exchange market in Hainan or in another district of China in order to balance foreign exchange earnings and expenditure. Besides, dividends received by a foreign investor from an enterprise invested in and established in Hainan might be freely remitted abroad by the investor. The remittance was to be exempt from tax.

Finally, foreign banks, Sino-foreign joint venture banks, insurance companies, and other financial institutions were allowed to set up operations in Hainan, subject to approval by the People's Bank of China.

There is no doubt that these regulations offered one of the most attractive incentive packages in China for foreign investors. The free flow of materials and funds were supplemented with the free flow of people. Thus, foreigners could obtain on-the-spot entry visas upon landing at the airports in Haikou and Sanya. The visas were granted for a period of 15 days and were good for travelling to other parts of China. Foreigners resident in Hainan and foreigners investing in enterprises or participating in the development of Hainan could apply for multi-entry visas allowing repeated entry to Hainan Island.

In 1991, Hainan Provincial Government issued a set of regulations which further specified the preferential treatment that foreign funded enterprises could obtain. They reiterated many of the provisions concerning tax exemptions and deductions carried in the 1988 regulations. In addition, they specified that foreign-funded enterprises enjoyed independent decision and management powers. Hence, article 42 said that a foreign-funded enterprise had the power to decide on its own the size of its staff and workers, to employ and dismiss senior managers and to hire and fire staff and workers. Article 43 stipulated that a foreign-funded enterprise could decide its own plans for production, marketing, and financial affairs and could also make decisions on its own concerning wages, allowances, and bonuses.[1]

In sum, the 1998 and 1991 regulations and associated policies, including tax exemptions and liberal land lease-hold rights created the most favorable tax environment for foreign-funded enterprises that the Chinese authorities had hitherto allowed. In addition, visa procedures for foreign businessmen and employees in joint ventures were more liberal than in any other SEZ.[2] Later, Pu Dong New Area was granted some of the same preferential policies, but in 1991–93 the Hainan case was still unique.

Foreign direct investment

Before 1988, foreign investment almost exlusively originated from Hong Kong, both in respect to number of contracts as well as contractual value. In 1987, for example, Hong Kong investment accounted for 95.4 percent of

Table 5.1 Foreign direct investment in Hainan, 1987–2005 (US$ million)

Year	*Contracted investment*	*Realized investment*
1987	13.61	8.93
1988	381.89	114.21
1989	280.60	107.07
1990	128.82	100.55
1991	393.67	176.06
1992	2,261.14	451.60
1993	4,194.77	1,047.84
1994	1,224.72	874.41
1995	2,780.77	1,055.01
1996	273.94	789.60
1997	281.86	711.34
1998	143.21	717.15
1999	791.76	484.49
2000	137.05	430.80
2001	151.93	466.91
2002	230.73	511.78
2003	291.85	580.62
2004	702.85	643.43
2005	342.11	684.01
1980–2005	15,231.81	10,023.05

Sources: *Hainan tongji nianjian 2001*, pp. 401–402; *Hainan tongji nianjian 2006*, pp. 469–470.

total foreign investment.[3] However, Hainan's change of status not only induced a surge in overall investment but also interested other economies in investing in the new province and SEZ. In 1993, Hainan alone attracted US$ 4.19 billion of which US$ 1.05 billion were actually being realized (see Table 5.1). Of the 3,091 contracted new enterprises 654 were equity joint ventures, 23 contractual joint ventures and 2,414 wholly foreign-owned enterprises (WFOEs) (see Table 5.2).[4] This is a significantly different pattern from the rest of China where joint ventures were the most popular form of FDI for foreign companies. The foreign capital mainly came from Hong Kong (55.4 percent), Great Britain (14.6 percent), Taiwan (9.1 percent), and USA (7.4 percent) (see Table 5.3). Two-thirds of FDI were channelled into the property development sector (*fangzhi chanye*) and the industrial manufacturing sector received less than a third of the total amount (see Table 5.4). This is also different from the rest of China, where the manufacturing sector since the 1980s has continuously accounted for two-thirds of FDI inflows. In Hainan, the massive investment flows into the property development sector created a bubble of speculative activity.

In 1994, FDI fell dramatically to US$ 1.22 billion or by 70.8 percent. Of this amount US$ 874.41 million was realized (i.e. 71 percent). In 1995, FDI picked up again and reached US$ 2.78 billion of which US$ 1.06 billion was realized. However, in 1996 there was a new dramatic fall in contracted

Table 5.2 Foreign direct investment in Hainan, 2000, 1993, and 2005

Mode		*Number and value Year 1993*	*Number and value Year 2000*	*Number and value Year 2005*
I.	Number of projects	3,091	184	174
	Equity joint venture	654	132	66
	Contractual joint venture	23	50	3
	Wholly foreign-funded enterprises	2,414	2	105
II.	Contractual value of FDI (US$ 1,000)	4,194,770	137,050	342,110
	Equity joint venture	69,965	82,420	104,830
	Contractual joint venture	156,270	49,460	7,880
	Wholly foreign-funded enterprise	3,338,850	5,170	229,400
III.	Utilized value of FDI (US$ 1,000)	1,047,840	430,800	684,010
	Equity joint venture	481,940	229,100	102,390
	Contractual joint venture	23,150	172,870	27,000
	Wholly foreign-funded enterprise	542,750	27,620	501,920
	Foreign-invested shareholding	n.a.	1,210	52,710

Sources: *Almanac of China's Foreign Economic Relations and Trade 2001*, p. 486; *Hainan tongji nianjian 2001*, pp. 401–402; *Hainan tongji nianjian 2006*, pp. 468–470.

Table 5.3 Hainan's foreign direct investment by 10 most important countries of origin, 1993

Country/region	*No. of projects*	*Value of contractual FDI (US 1,000)*	*In percent*
Total	3,091	4,194,770	100.0
Hong Kong	2,150	2,322,340	55.4
UK	10	611,510	14.6
Taiwan	396	381,930	9.1
USA	135	309,830	7.4
Singapore	120	155,070	3.7
Thailand	47	83,810	2.0
Malaysia	36	73,870	1.8
Macao	39	56,950	1.4
Japan	44	42,580	1.0
Canada	19	35,610	0.9

Source: *Hainan nianjian 1994*, Vol. 3, p. 46.

investment. Investment only amounted to US$ 273.94 million, the lowest since the austerity year of 1990. This seems to indicate that realized investments were about to take a new sharp downturn. In 1997, FDI rose to US$ 281.86 million, before falling to a new low of US$ 143.21 million in 1998. FDI suddenly jumped to US$ 791.76 in 1999, only to experience a new reduction in 2000. Table 5.2 clearly illustrates the tremendous downturn in investment in 2000 and 2005 compared to 1993. There were only 184 projects in 2000 and 174 in 2005, compared to 3,091 in 1993, and the contractual value of FDI had fallen to US$ 137,050 in 2000 (see Tables 5.1 and 5.2), a reduction of 96.7 percent compared to 1993. By 2005 the downturn had to some extent been reversed and the contractual value of FDI had increased to US$ 342,110 (see Table 5.1). After having experienced a down-turn in the late 1990s, the category of WFOEs had regained its former position as the most important entry mode form for foreign enterprises. Moreover, in recent years contractual joint ventures have become significantly less popular (see Table 5.2). As to the sectoral composition of FDI, real estate has lost its former dominance and in its stead industrial manufacturing and the category of "health, education, sports and social services" have gained in importance in relative terms (see Table 5.4).

It is interesting to note that, except for 1999 and 2004, realized investment for the last 10 years has surpassed contracted investment (see Table 5.1). The reason for this investment pattern, which is quite unlike the one found in mainland China, seems to be a backlog of already committed investment that has materialized only recently. However, if contracted investment continues to drop, realized investment is bound to be reduced to a minimal figure.

It appears that Hainan has lost its attraction to foreign investors. In particular, it is Hong Kong investment that has pulled out as evidenced by

Table 5.4 Hainan's FDI by sector in 1993, 2000, and 2002

Sector	*No. of projects (1993)*	*No. of projects (2000)*	*No. of projects (2002)*
Total	3,091	184	233
Agriculture, forestry, fishery, etc.	130	61	47
Industry	778	68	71
Construction industry	538	4	4
Communication and transportation	16	1	7
Wholesale, retail and catering	70	10	21
Real Estate, public utilities	1,442	5	20
Health, education, sports, social services	9	34	50
Scientific research & services	16	1	5
Other	92	N.A.	9

Sector	*Contractual FDI 1993 (US$ 1,000)*	*Contractual FDI 2000 (US$ 1,000)*	*Contractual FDI 2002 (US$ 1,000)*
Total	4,194,770	137,050	230,730
Agriculture, forestry, fishery, etc.	108,250	22,690	25,300
Industry	1,039,520	31,810	60,650
Construction industry	284,460	–3,590	17,190
Communication and transportation	13,330	30,000	10,260
Wholesale, retail and catering	64,350	12,800	25,440
Real Estate, public utilities	2,580,010	N.A.	30,800
Health, education, sports, social services	46,110	43,270	36,530
Scientific research & services	7,540	70	2,700
Other	51,200	N.A.	21,860

Sources: *Hainan nianjian 1994*, Vol. 3, p. 45; *Hainan tongji nianjian 2001*, p. 403; *Hainan nianjian 2003*, p. 414; *Almanac of China's Foreign Economic Relations and Trade 2001*, p. 486.

Table 5.5 Hainan's foreign direct investment by 10 most important countries of origin in 2000 and 2002

Country/region	*No. of projects*	*Value of contractual FDI (USD 1,000)*	*In percent*
Year 2000			
Total	184	137,050	99.5
Hong Kong	88	47,370	34.6
USA	14	40,980	29.9
Taiwan	45	19,210	14.0
UK	3	11,710	8.5
Norway	1	4,850	3.5
Korea	5	4,280	3.1
Canada	4	4,180	3.0
Japan	8	3,920	2.9
Macao	1	150	0.1
Belgium	1	130	0.1
Year 2002			
Total	233	230,730	80.5
Hong Kong	121	101,360	43.9
USA	12	38,970	16.9
UK	2	13,810	6.0
Taiwan	43	11,880	5.1
Japan	7	8,160	3.5
South Korea	10	4,990	2.2
Singapore	10	1,990	0.9
Indonesia	n.a.	1,770	0.8
Thailand	3	1,480	0.6
Macao	1	1,290	0.6

Sources: *Hainan tongji nianjian 2001*, p. 403; *Hainan nianjian 2003*, p. 414.

Hong Kong's share of total investment falling from 55.4 percent in 1993 to 34.6 percent in 2000, only to temporarily increase again in 2002 to 43.9 percent (see Tables 5.3 and 5.5). In recent years, investment from the US and from a number of European countries has increased relative to total investment, and Taiwan is keeping its FDI at around US$ 11–19 million a year.[5]

It remains to be explained why investment took such a sharp downturn even though the business environment in terms of the legal framework – at least on paper – remained attractive to foreign investors.

Foreign trade

Another main objective behind the establishment of the new SEZ on Hainan was to expand foreign trade in order to stimulate economic growth. The starting point was at a very low level. Thus, in 1987 the value of total imports and exports only amounted to US$ 292 million. However, except

Table 5.6 Hainan's foreign trade 1987–2005 (in US$ million)

Year	*Total*	*Export*	*Import*	*Balance*
1987	292.41	115.45	176.96	−61.51
1988	664.62	294.96	369.66	−74.70
1989	1,096.20	360.82	735.38	−374.56
1990	936.97	471.38	465.59	5.79
1991	1,348.76	669.64	679.12	−9.48
1992	1,694.50	881.20	813.30	−67.9
1993	2,568.66	901.57	1,667.09	−765.52
1994	2,697.19	986.98	1,710.21	−723.33
1995	2,267.44	830.00	1,437.44	−607.44
1996	2,286.67	841.32	1,445.35	−604.03
1997	1,949.01	889.66	1,059.35	−169.69
1998	1,909.13	884.63	1,024.50	−139.87
1999	1,218.67	748.60	470.07	278.53
2000	1,287.84	802.89	484.95	317.94
2001	1,762.38	800.94	961.44	−160.50
2002	1,866.86	819.30	1,047.56	−228.26
2003	2,278.71	869.16	1,409.39	−540.23
2004	3,401.68	1,092.52	2,309.16	−1,216.64
2005	2,591.75	1,022.54	1,569.21	−546.67

Sources: *Hainan tongji nianjian 2001*, p. 391; *Hainan tongji nianjian 2003*, p. 383; *Hainan tongji nianjian 2006*, p. 461.

for the year 1990, foreign trade grew rapidly during the subsequent decade and reached a total volume of US$ 2.57 billion in 1993. This equalled 57.1 percent of Hainan's GDP, a share of GDP surpassed only by Guangdong Province (139.7 percent). Shanghai and Fujian with shares of 54.9 percent and 50.4 percent, respectively, had slipped behind.[6] The value of exports in 1993 was US$ 902 million, an increase of 683 percent over 1987, and imports were US$ 1,667 million, an increase of 847 percent in the same period (see Table 5.6).[7] Clearly, the new status given to Hainan in 1988 had a positive effect on trade with the outside world.

In 1993, export mainly consisted of industrial manufactured production, accounting for US$ 573.11, or 68.39 percent of total exports. The export value of primary products was US$ 237.8 million, accounting for 28.38 percent of the total export value, and other products US$ 27.09 million or 3.23 percent of the total export value.[8] Classified by value, there were nine items above US$ 10 million, including garments, feedstuff, eiderdown feathers, silicon iron, timber, refined sugar, shoes, silico-manganese alloy, and vegetables (see Table 5.7). The nine items accounted for 24.2 percent of total exports. There were eight export commodities valued between US$ 10 million and US$ 5 million, including pottery and porcelain, rabbit hair, colored cloth, electric fans, air mattress beds, locks, and kidney beans.[9]

These 17 export commodities accounted for only 30.3 percent of the value of Hainan's export, indicating the extremely diversified nature of Hainan's

Table 5.7 Hainan's top ten export commodities, 1993

Commodity	*Export value (US$)*	*% of total value*
1993		
Garment	95.18	10.5
Feedstuff	28.76	3.2
Eiderdown feather	18.13	2.0
Silicon Iron	15.57	1.7
Timber	15.10	1.7
Refined Sugar	13.74	1.5
Shoes	10.88	1.2
Silico-manganese alloy	10.61	1.2
Vegetables	10.47	1.2
Total	218.44	24.2
Total value of exports	901.00	100

Sources: *Hainan nianjian 1994*, Vol. III, p. 43; *Hainan tongji nianjian 2006*, p. 465.

Table 5.8 Hainan's top ten export markets, 1993

Country/region	*Value of exports (US$ million)*	*% of total export value*
Hong Kong	451.4	50.1
Japan	107.9	12.0
USA	63.8	7.1
Singapore	15.1	1.7
UK	13.2	1.5
Germany	12.0	1.3
Italy	12.0	1.3
South Korea	12.0	1.3
Indonesia	8.9	1.0
Kazakstan	8.7	1.0
Total	704.7	78.3
Total value of export	901.6	100

Sources: *Hainan nianjian 1994*, Vol. 3, p. 43.

export structure.[10] In 1993, Hong Kong was the main export market, accounting for 50.1 percent of exports. Japan ranked second with 12 percent, followed by the US with a share of 7.1 percent (see Table 5.8).

Import in 1993 was substantially higher than export and amounted to US$ 1,667 million, causing a trade deficit of US$ 765 million (see Table 5.6). There were eight commodities valued over US$ 10 million, including steel, medicine, oil products, aircraft equipment, crude oil, ships, motor chassis, and home appliances. These items accounted for more than 95 percent of all imports. Import commodities mainly came from Hong Kong (28.2 percent), the US (22.8 percent) and Singapore (10.1 percent).

Table 5.9 Hainan's export as a share of provincial GDP and China's total export value

Year	*Hainan's export (US$ million)*	*Share of Hainan's GDP (in %)*	*Share of China's export (in %)*
1992	881	27.5	1.04
1993	902	19.9	0.98
1994	987	25.6	0.82
1995	830	18.9	0.56
1996	841	17.9	0.56
1997	890	17.9	0.49
1998	885	16.6	0.48
1999	749	13.0	0.38
2000	803	12.8	0.32
2001	801	11.9	0.30
2002	819	10.9	0.25
2003	869	10.4	0.20
2004	1,093	11.3	0.18
2005	1,023	9.4	0.13

Sources: Various years of *Almanac of China's Foreign Economic Relations and Trade*; *Zhongguo tongji nianjian 2006*, pp. 63, 734; *Hainan tongji nianjian 2006*, pp. 29, 462.

However, in 1994–95, Hainan's foreign trade began to slow down, and in 1995 there was a fall both in exports and imports, causing the volume of foreign trade to drop by 16 percent (see Table 5.6).[11] There was only a marginal improvement in 1996. The fall resulted in a substantial reduction in foreign trade's share of Hainan's GDP. In 1996, foreign trade was down to 41.6 percent of Hainan's GDP and below the share not only for Guangdong (142.7 percent), but also the shares for Shanghai (79.6 percent), Beijing (76.4 percent), Tianjin (76.4 percent), and Fujian (50.4 percent).[12]

During the 1997–99 period, the volume of foreign trade continued its downward spiral, and in 1999 it had fallen to half its 1993 size. Exports had dropped by 17 percent compared to 1993 and imports to only about a quarter of its former volume, indicating the tremendous fall in construction and processing activity on the island. In 2000, the situation had improved only marginally with slight increases in both exports and imports, causing total trade to rise to US$ 1,287.84 million.[13] Even though the downturn in foreign trade seems to have been somewhat reversed since 2000, in 2005 the total value of foreign trade had only increased to about the level of 1993. Further, in 2005, the value of imports still exceeded the value of exports, resulting in a trade deficit of US$ 546.67 million (see Table 5.6).

A closer look at exports also indicates that Hainan, by the end of the 1990s, had lost its competitive edge. In 1993, exports accounted for 19.9 percent of Hainan's GDP and 0.98 of the total export value of China. These shares had fallen to 13.0 percent and 0.38 percent by the year 1999 and to 9.4 percent and 0.13 by 2005 (see Table 5.9). These are low figures compared

Table 5.10 Value of export and its share of GDP at provincial level in China, 2000 and 2005

Province	*Value of export (US$ million) (2000)*	*Share of GDP (in %) (2000)*	*Value of export (US$ million) (2005)*	*Share of GDP (in %) (2005)*
Beijing	4,627	15.6	30,866	36.7
Tianjian	8,629	43.5	27,415	61.3
Hebei	3,710	6.1	10,927	8.6
Shanxi	1,237	6.2	3,529	6.9
Inner Mongolia	970	5.7	1,771	3.8
Liaoning	10,848	19.2	23,438	24.0
Jilin	1,258	5.7	2,467	6.0
Heilongjiang	1,451	3.7	6,072	9.0
Shanghai	25,354	46.2	90,724	81.3
Jiangsu	25,769	24.8	122,967	55.1
Zhejiang	19,444	26.7	76,804	47.1
Anhui	2,160	5.9	5,189	7.9
Fujian	12,909	27.3	34,845	43.5
Jiangxi	1,197	5.0	2,440	4.8
Shandong	15,530	15.1	46,250	20.1
Henan	1,493	2.4	5,101	8.0
Hubei	1,936	3.8	4,450	5.6
Hunan	1,653	5.1	3,747	4.7
Guangdong	91,918	78.8	238,159	87.2
Guangxi	1,493	6.1	2,877	5.8
Hainan	802	12.8	1,023	9.4
Chongqing	995	5.2	2,520	6.7
Sichuan	1,394	2.9	4,701	5.2
Guizhou	420	3.5	859	3.6
Yunnan	1,175	5.0	2,642	6.1
Tibet	113	8.0	165	5.4
Shaanxi	1,310	6.5	3,076	6.7
Gansu	415	3.5	1,091	4.6
Qinghai	112	3.5	323	4.9
Ningxia	327	10.2	687	0.9
Xinjiang	1,204	7.3	5,039	15.8
National	249,202	23.1	761,953	34.1

Sources: For the year 2000, based on *Almanac of China's Foreign Economic Relations and Trade 2001*, pp. 319–528; for Guangdong province and the national level calculations are based on *Zhongguo tongji nianjian 2001*, pp. 49, 56, and 599. Data for the year 2005 are from China Commerce Yearbook (Beijing: Shangwu chubanshe, 2006), pp. 453–652; for Beijing, Guangdong, Hainan, Ningxia, Xinjiang and the national level calculations are based on *Zhongguo tongji nianjian 2006*, pp. 57, 63, 749.

Table 5.11 Hainan's top ten export commodities, 2000 and 2005

Commodity	*Export value (US$)*	*% of total value*
2000		
Natural Gas	217.15	27.00
Brassieres of man-made fibres	23.80	2.96
Carbamide	19.44	2.42
Wood in particles	15.27	1.90
Wood furniture	12.83	1.59
Ferro-silico manganese	10.59	1.32
Jewelry of gold	9.38	1.17
Bags with surface of plastic	7.06	0.88
Blankets and carpets	6.52	0.81
Shorts of man-made fibres	5.70	0.71
Total	327.74	40.8
Total value of exports	802.89	100
2005		
Minerals	218.71	21.39
Textile materials and products	187.16	18.30
Chemicals and related products	94.00	9.20
Animal products	92.44	9.04
Others	74.85	7.32
Base metals and related products	74.31	7.27
Mechanical, electrical equipment recorders etc.	66.39	6.49
Food, beverages, liquor, vinegar, tobacco etc.	36.69	3.59
Mineral material products; ceramics	29.67	2.90
Wood and wooden products, charcoal, cork	23.73	2.32
Total	897.95	87.82
Total value of exports	1,022.54	100

Sources: *Almanac of China's Foreign Relations and Trade 2001*, p. 484; *Hainan tongji nianjian 2006*, p. 465.

to other coastal provinces, and once more Hainan resembles an inland province rather than one of the thriving coastal provinces in China (see Table 5.10).

By 2000, there were only six export commodities exceeding a value of US$ 10 million. These included natural gas, brasseries of man-made fibres, carbamide, wood in chips or particles, wood furniture, and ferro-silico manganese. Natural gas, the number one export commodity, amounted to US$ 217.15 million, equal to 27.0 percent of total export value. These figures indicate that Hainan's export structure has become less diversified and is increasingly relying on primary products. This tendency is further indicated by the figures for 2005. By then, the ten most valuable export commodities (now all exceeding a value of US$ 10 million) accounted for 87.82 percent of the total value of Hainan's export, with minerals and chemicals and related products accounting for 21.39 and 9.20 percent, respectively (see Table 5.11).[14] The relative importance of textile materials and products (18.3 percent) has increased significantly during the period. Thus, it seems evident that Hainan's export structure has become less diversified, although it should be cautioned

Table 5.12 Hainan's top ten export markets, 2000 and 2005

Country/region	*Value of exports (US$ million)*	*% of total export value*
2000		
Hong Kong	353.5	44.0
Japan	82.2	10.2
USA	80.9	10.1
South Korea	29.8	3.5
Taiwan	20.5	2.6
Germany	17.1	2.1
Italy	12.3	1.5
Indonesia	11.4	1.4
Malaysia	10.9	1.4
India	10.8	1.3
Total	629.4	78.1
2005		
Hong Kong	321.3	31.4
USA	143.9	14.1
Japan	110.2	10.8
South Korea	45.3	4.4
Germany	30.7	3.0
UK	25.3	2.5
Malaysia	16.4	1.6
Italy	15.7	1.6
Taiwan	13.6	1.4
Russia	12.5	1.2
Total	734.9	71.9

Sources: *Almanac of China's Foreign Economic Relations and Trade 2001*, pp. 484–485; *China Commerce Yearbook 2006*, p. 607.

that direct comparison is difficult due to the fact that the statistical categories applied have become broader.

In 2000, Hong Kong still ranked first among Hainan's export markets, accounting for 44 percent of total export value. Japan still ranked number two, taking 10.2 percent, and the US was ranked as number three with a share of 10.1 percent. This pattern had changed somewhat by 2005: Hong Kong was still ranked as number one, but only accounted for 31.4 percent. With a share of 14.1 percent, the US had advanced to the number two position ahead of Japan's 10.8 percent (see Table 5.12).[15]

Given the proximity of Vietnam and regular visits by Chinese fishing vessels in Vietnamese harbors and vice versa, there is undoubtedly also some barter trade. It seems reasonable to assume that given the economic downturn in recent years, the relative importance of barter trade across the border may have increased. However, there is no reliable data available on this issue.

6 Yangpu Economic Development Zone

Yangpu Economic Development Zone was presented as a core element of Hainan's economic development strategy in August 1988, not long after the establishment of Hainan Province. Yangpu is an excellent natural deep-water harbor situated at the northwest corner of Hainan Island, about 140 km from Haikou. It is also situated close to important shipping lanes and rich deposits of natural resources such as gas and oil.

The idea of constructing a deep-water port in Yangpu was first aired by Zhou Enlai in the early 1970s.[1] In 1974, Guangdong Province set up a committee to establish and enlarge port facilities on Hainan, and Yangpu was mentioned as a possible project. However, due to a lack of capital funds these plans were never realized.[2] In 1984, the US entrepreneur Armand Hammer suggested that a large chemical fertilizer plant should be built in Yangpu to exploit local oil and gas resources and to take advantage of the natural harbor.[3] After having completed a feasibility study, the central government in August 1985 formally announced that it had approved the plans to construct the new harbor. It was expected to be completed during the Seventh Five-Year-Plan and was estimated to require investments of about 180 million *yuan*.[4]

As plans to construct the new deep-water port seemed to be materializing, Hainan regional authorities began to draw up more comprehensive plans for the development of Yangpu, which at that time was still a backward agricultural area and a small fishing port. In August 1986, it was decided to go ahead with the construction of a modern industrial port city in Yangpu.[5] During his visit in February 1987 Zhao Ziyang supported these plans. However, the local authorities were unable to raise the funds necessary for their realization and had to turn to foreign investors in order to attract capital.

The most attractive incentive package in China

In order to attract foreign investors Liang Xiang in August 1988 officially announced that the new provincial authorities were considering opening China's first "free port" in Yangpu similar to the free ports operating in Hong Kong and Singapore.[6] Later in the fall it was disclosed that provincial authorities would allow foreign contractors to buy land-use rights within the Yangpu Development Zone. The first to enter such an agreement with the provincial government was the Japanese company Kumigai Gumi, which leased part of Yangpu Development Zone for a period of 70 years.[7] According to the contract, Kumigai Gumi was to develop the zone by attracting foreign investors and establishing an infrastructure. They were given full autonomy in economic matters such as questions concerning production, management, export, etc.[8]

The preferential policies for investing in Yangpu Economic Development Zone primarily included a number of tax exemptions. For example, in the following cases there were exemptions from customs duty and turnover taxes:

1 imported machinery, equipment, and capital construction material needed for infrastructural construction;
2 building materials, equipment, fuels for production and management, reasonable number of vehicles and means of transportation, office necessities;
3 various commodities imported by state-run duty-free foreign exchange shops;
4 raw materials, accessories, packaging materials, and goods imported by the enterprises to produce exports;
5 consumer goods imported for consumption in the zone;
6 exports produced by enterprises in the zone, except for crude oil and oil products which were only exempt from value-added tax and consumption tax;
7 products manufactured by the enterprises and sold within the zone.

As to income tax, the same preferential policies as mentioned above for the SEZ of Hainan also applied to Yangpu Econonomic Development Zone. However, the regulations on preferential policies also contained additional reduction and exemption policies. It was, for example, specified that wages of foreign staff members (including staff from Hong Kong, Macao, and Taiwan) should be exempt from half of the income tax. Moreover, foreign enterprises in the zone would be exempt from contributions to funds for key projects such as energy and transportation. They were also exempt from urban construction and maintenance tax as well as the education fund surcharge. Furthermore, foreign enterprises and individuals would be exempt from real estate taxes for five years, starting from the time when they purchased their property. Finally, foreign investors were free to remit the profit they made in the zone and they were free to transact foreign exhange in banks and other organizations.

The regulations were extremely liberal as to the kind of activities enterprises in the zone were allowed to engage in. Such activities and projects included export-oriented industrial projects and export processing programs, outward-oriented businesses in storage, transportation, packaging, information, product exhibition, recreation, tourism, restaurant, and catering business, commerce, maintenance, real estate, cultural education programs, public hygiene, and public welfare. Yangpu enterprises were also allowed to engage in mutual shareholding, merger, contracting, leasing and so on.

Trade policies for Yangpu Economic Development Zone were even more liberal than those of the Hainan SEZ. Thus, products manufactured by enterprises in the zone and transit and entrepôt trade were exempt from export licenses. Moreover, enterprises were allowed to import machinery and equipment, in addition to raw and auxillary materials for production and construction without going through preliminary procedures if they were for own use. Raw materials from outside the zone that were substantially processed in the zone with more than 20 percent value added tax were regarded as products of the zone and given preferential treatment accordingly.

In sum, in terms of business environment, Yangpu Economic Development Zone could boast one of the most attractive incentive packages in China. This included a free flow of people, funds and materials that could not be matched by economic development zones in China at the time. In addition, the granting of transferable land-use rights for up to 70 years made investment enormously attractive.

Land lease

This was not the first time permission had been given to lease land to foreigners. In Shenzhen, the first contract had been signed already in 1987, and in Fuzhou and Guangzhou land had also been leased to foreign investors on a long-term basis. However, in none of these incidents, was the size of land being leased nearly as big as in Yangpu.

Not surprisingly there was opposition to leasing parts of Yangpu to the Japanese for the price of 90 million *yuan*. The critics voiced their opinions at a meeting of the Seventh National Committee of the Chinese People's Political Consultative Conference in March 1989 and at the meeting of the Seventh National People's Congress in April 1989. They argued that the land-lease plan was to be perceived as a case of national betrayal and humiliation made even worse by the fact that the land was to be leased by the Japanese who ruled China so brutally in the past.[9] Vice-president Zhang Wei of Qinghua University, representing a group of delegates who were critical of the leasing plans, enumerated seven principal reasons for opposing the "Yangpu Model." These were: a) similarities between the leasing of land and the Qing government's "selling out" of Hong Kong and Macao to imperialist powers; b) the important strategic military position of Hainan in the South China Sea; c) the fact that the company involved was Japanese and that the price was very low (3 million *yuan* per square kilometre); d) that the foreign company was to manage important facilities such as the harbor and the power plant and this had serious security implications; e) the risk of heavy pollution created by new industries; f) the long duration of the lease; g) the capacity of China to develop the area by its own means, if only one waited with patience.[10]

The Hainan Governor Liang Xiang defended the land-lease plans. He said that in the next 15 years, Hainan would need 200 billion *yuan* to improve infrastructural facilities such as energy, communications, roads, ports, and water supply. This kind of capital could not be raised by the Chinese government or by Hainan Province. Therefore, the assistance of foreign capital was needed and the Yangpu-model could provide the necessary incentive. Hainan Party leader Xu Shijie echoed Liang Xiang, stating that to let foreign businessmen develop 30 square km of Yangpu could not be regarded as letting foreigners build colonies in China or as a sign of national betrayal. Although they would enjoy full decision-making power regarding development and management of the leased area, they would have to abide by Chinese laws and regulations. The arrangement was only a question of attracting foreign capital in order to speed up economic construction.

Zhang Siping, deputy director of the Social and Economic Research Center of Hainan Province, also stressed that Hainan would need considerable development capital. He said that according to Shenzhen's experience, infrastructural construction would require 120 to 150 million *yuan* per square kilometre. Neither the state, nor Hainan Province had that kind of money and therefore it was necessary to attract outside investment. However, foreign investors would only invest in infrastructure and other essential projects if they were compensated and therefore, according to Zhang Siping, "comprehensive compensation" in the form of the Yangpu leasing arrangement was necessary.[11]

The pursuance of the Yangpu model meant in effect dividing Hainan into a host of subzones that were to be developed by foreign investors; development not only meaning developing infrastructure but also industry and commerce and modern management. It was realized that in order to attract foreign businessmen and companies and make them part of the "systematic development" (*xitong kaifa*) of the island, it was necessary to promise them what was called "comprehensive compensation" (*zonghe buchang*), which implied giving permission to engage in profitable sectors such as finance, tourism, the service sector, trade, etc.

The Yangpu Port project was approved by the provincial authorities but never fully implemented due to lack of formal central approval. The political turmoil in the spring and summer of 1989 required the full attention of the center, and in the wake of the Tiananmen massacre, economic policies were introduced that stiffled local initiatives such as Yangpu. Members of the new more conservative leadership opposed the Yangpu development plan because they felt it granted too much power to foreign investors and would set a dangerous precedent for other coastal cities to design similar development projects.

Special customs zone

Another important initiative which suffered from the political debacle caused by the Tiananmen incident was the idea of a Special Customs Zone on Hainan. The idea was apparently circulated in Hainan in 1987 when discussions concerning the island's future status were intensifying.[12] The Special Customs Zone was envisaged as in fact a free trading zone or a free port fully integrated into the world economy. The customs posts between China/Hainan and other countries would be removed and instead be set up between Haikou and Leizhou Peninsula in Guangdong. Trade between Hainan and the mainland would be treated as external trade and regulations concerning import tariffs and export quotas would apply. This implied that Hainan would have not only the authority to conduct its own monetary policies, but would also gain its own convertible currency.

There were two important advantages in introducing a Special Customs Zone in Hainan. First, by integrating Hainan into the world economy, the inflow of foreign investment would be greatly facilitated, thereby significantly reducing the need for state investment. From the early 1980s it had been rather obvious that without massive investment it would be difficult to realize the goal of rapidly developing Hainan and one could in fact argue that the Hainan car scandal stemmed from an attempt to gain the capital that was not forthcoming from other sources. Second, by isolating Hainan from the rest of the country, reformist leaders could experiment with rather dramatic reform measures such as privatization, long-term leasing of land to foreigners, the introduction of free capital markets and currency convertibility, the development of social security systems, the streamlining of government functions, and the establishment of "small government, big society."

At a meeting in the Financial and Economic Leading Group of the CCP Central Committe in January 1988, Zhao Ziyang strongly supported the idea of establishing a Special Customs Zone on Hainan and pointed out that from the beginning, the prerequisite for opening up Hainan had been to separate it from the national customs system and make it a second customs system.[13] However, when the Hainan leadership by late 1988 finally decided to follow up on these suggestions, it was too late as Zhao Ziyang and his supporters were beginning to lose influence. In the beginning of 1992 the idea was pressed again. But now the center was shifting its attention to Shanghai and therefore no longer needed Hainan as its showcase for reform and openness.

Yangpu model revived

However, Deng's *nanxun* in early 1992 also had consequences for the political climate on Hainan, and as part of the new efforts to deepen the reform process the Yangpu Economic Development Zone was finally approved by the State Council in March 1992. In September 1992, Kumigai Gumi and six other foreign and Chinese enterprises established the HainanYangpu Land Development Co. that was to take overall charge of developing the zone and of attracting investors to develop the land by leasing, transfer, and mortgaging of land-use rights. Kumigai Gumi was the leading investor with a stock equity of 30 percent, followed by Ronggao Trade Co. from Hong Kong with a stock equity of 20 percent. The other five investors came from the mainland and from Hainan Island.[14] On September 9, 1993, Yangpu was officially declared an enclosed or bonded area (free of domestic taxes). With an area of 30 square kilometres it was even bigger than the Shanghai Waigaoqiao Bonded Zone.

By March 1994, 6,262 enterprises had registered in Yangpu Economic Development Zone. Deep-water docks of 20,000 tonnes capacity were being built and infrastructure work within the zone had been initiated. Also, several thousand peasants who had lived off the land were resettled from their original villages into modern concrete buildings. Advanced telecommunication networks were put into place and a technically advanced power plant with a designed capacity of 1.3 million kw was constructed by Siemens of Germany. In March 1997, a modern four-laned Yangpu–Haikou expressway was opened.

However, Yangpu never really took off. Operational industrial projects in the zone include a 450 million *yuan* high-speed wire-rod plant, a 170 million *yuan* brown rice processing factory, and a 154 million *yuan* oak floor board factory. However, large projects such as a 25 billion *yuan* petrochemical project never materialized. Even the US chemical giant DuPont has chosen Dongfang city rather than Yangpu for a nylon intermediates plant.[15]

There appears to be several major problems with the Yangpu project. One is the lack of a sufficient water supply. Water is of poor quality and wells have to be drilled several hundred meters deep. A second problem is the sky-high price of land. Land is priced at 360,000 HK$ per *mu* which is more than 50 times the price in 1992. Third, Yangpu is too far away from the economic powerhouses in Guangdong and Shanghai and the economic downturn of the 1990s in Hainan has made the situation even worse.

Recently investments have begun to pay off. By the end of 2005, accumulated investments in infrastructure in Yangpu Economic Development Zone amounted to approximately 6 billion *yuan*.[16] The basic road system was already in place and considerable progress was made in terms of securing water supplies. Thus a 54 km long channel had been built to obtain water from the Song Tao Reservoir and a tap water factory with daily water processing had been established. Facilities for waste processing and emission had also been built. Energy resources had also been secured by considerable gas supplies from offshore fields. In terms of communication, telephone lines and digital data networks had been put in place and a direct flight to Hong Kong established.

The biggest project in Yangpu is the Yangpu Jinhai Woodpulp Enterprise which is a 10 billion *yuan* project with investment from the Indonesian Jin

Guang Group. The estimated sales turnover of the project, which started production in 2003, is approximately 5 billion *yuan*. Another big project is an 11.6 billion *yuan* project based on investment from China Petroleum & Chemical Hainan Oil Refinery & Chemicals Company (*Zhongguo Shihua Hainan Lianyou Huagong Gongsi*). It started operation in 2006 and has an anticipated annual sales turnover of approximately 3.2 billion *yuan*.

The current development plan of Yangpu Economic Development Zone, revised in 2004, defines four leading industries/clusters:

1 oil, gas, and chemical industry cluster,
2 wood, pulp and paper integrated production cluster,
3 national oil and commercial reserve site, and
4 a modern bonded zone logistic center integrating living areas and harbors.

The new development program plans to enlarge the construction site to 69 square kilometres in order to secure space for the expansion of the zone's activities.[17]

The authorities in Yangpu have also begun to address the social problems arising from the reallocation of the original population that took place in the early 1990s. Farmers and fishermen were moved out of their villages and housed in new drab concrete buildings. Several so-called *min sheng* (people's welfare) projects have been launched. They involve subsidizing the basic living of 1,140 families; setting aside funds for the nine year obligatory primary education and for vocational training and college education; providing access to a new form of cooperative medical care system; building a new middle school and a new hospital, etc.[18]

However, it remains to be seen whether these improvement in basic living standards as well as new investments in industrial enterprises can seriously sharpen Yangpu's competitiveness and investment attraction vis-à-vis China's many other economic development zones. Certainly the Management Bureau of the Hainan Economic Development Zone had regained their optimism when at the end of 2005 they restated what they regarded as Yangpu's core advantages:

> Yangpu has many advantages in order to develop modern seashore industries: (1) locational advantages: It is a zone contiguous with the ASEAN trade zone, and located in the central area of the South East Asian shipping lines; (2) harbor advantages: the coastline of Yangpu Peninsula is approximately 60 kilometres in length, 10–30 meters in depth. More than 80 harbors taking ships below the level of 300,000 tons can be constructed; (3) resource advantages: there are rich oil and natural gases offshore, and mineral resources, such as quartz sand; (4) land advantages: Yangpu has a wide hinterland, a small population, impoverished soil with a rock base, and is suitable for developing industry; (5) policy advantages: Yangpu is the only national economic

development zone implementing a Bonded Zone policy; (6) political advantages: Yangpu Economic Development Zone was approved by Deng Xiaoping and it gained the attention and support from several generations of the national leaders.[19]

7 “Small government” in Hainan

Bianzhi and nomenklatura

Any discussion of the political system in China needs to take a number of key administrative concepts, peculiar to the Chinese administrative system, into consideration. The most important of these are *bianzhi* and nomenklatura.[1]

Bianzhi usually refers to the authorized number of personnel in a unit, office, or organization and is normally translated as “establishment.”[2] By controlling the bianzhi, the party-state exercises control over the entire administrative apparatus from central to local level.

There are three main categories of *bianzhi*: administrative *bianzhi* (*xingzheng bianzhi*), enterprise *bianzhi* (*qiye bianzhi*), and the *bianzhi* which applies to service organizations (*shiye danwei bianzhi*). The administrative *bianzhi* has the most direct bearing on the political system. It refers to the authorized number of established posts in party and government administrative organs (*jigou*). The administrative *bianzhi* stipulates the number of administrative organs and the number of personnel (*renyuan*) in these organs. The administrative *bianzhi* also specifies the number of leading positions in the various administrative organs. The *bianzhi* also involves budget outlays in the form of salary and allowances. *Shiye bianzhi* refers to the number of established posts in so-called service organizations. *Shiye danwei* are different from administrative organs in that they do not have administrative power over other bodies.[3] Finally, the concept of *qiye bianzhi* refers to state economic enterprises (i.e. profit-oriented economic enterprises at various levels of the state economic production system). Collective and private enterprises are not covered by the *bianzhi* system.[4]

The concept of nomenklatura is closely related to *bianzhi*. Nomenklatura has been defined as a “list of positions, arranged in order of seniority, including a description of the duties of each office.”[5] It is a Soviet/Russian term which lay at the heart of the Soviet control system. In the former Soviet Union, the Central Committee and the various party committees at the different levels of the administrative set up established and maintained such lists. It is generally believed that the CCP developed a similar system, using the concept of *zhiwu mingchengbiao* (job title list).

It is important to emphasize that the nomenklatura lists are controlled by party committees and that they only contain leadership positions. Therefore a more precise definition than the above would be to define nomenklatura as a list containing those leading officials directly appointed by the party as well as those officials about whom recommendations for appointment, release or transfer may be made by other bodies, but which require the party's approval. It should also be noted that the nomenklatura include lists of personnel to be recommended for future appointment.[6] The *bianzhi* system neither contains such reserve lists nor does it describe mechanisms for leadership appointments.

As indicated, it can be difficult to distinguish between *bianzhi* and nomenklatura. A *bianzhi* list specifying and ranking the various positions and detailing the administrative functions in offices and organs under the authority of a given party committee or party faction is in fact part of the nomenklatura. However, a *bianzhi* list established and maintained by a state personnel department is in principle not part of the nomenklatura.

For example a *bianzhi* list encompasses all employees in a given unit, including personnel engaged in logistic work, such as drivers and cooks, whereas the nomenklatura only apply to the leading administrative personnel from section (*ke*)-level and above. However, in practice, party organization departments will oversee the work of the state personnel departments and often the two lists may overlap. Structurally there are centrally managed cadres, provincially managed cadres, prefecture (city) managed cadres, and county managed cadres. Principal cadres in the state civil service will be part of the nomenklatura system at their corresponding levels, but managed by the level above. The SOEs are also part of the present nomenklatura system. Thus the CEOs of the 54 largest companies in China are on the central nomenklatura list and are managed by the Central Committee's Organizational Department. The system is very complex and intricate and is in general not well understood in Western China scholarship.

Originally national *bianzhi* work was directed by a State *Bianzhi* Committee (*Guojia bianzhi weiyuanhui*) which was placed directly under the State Council as a directly affiliated organ (*zhishu jigou*). It was headed by the State Council Secretary General and had a *bianzhi* of 30 positions. In 1982, the committee was merged with the State Labour Bureau, the State Personnel Bureau and the Government Bureau for Cadres in Science and Technology to form a new Ministry of Labour and Personnel.[7] However, in 1991 *bianzhi* control was centralized and placed directly under the Central Committee as the Central Commission for Institutional *Bianzhi* (*Zhongyang jigou bianzhi weiyuanhui*). This move, which placed *bianzhi* work directly under CCP control, was in line with the recentralization of party control in personnel matters that took place from the early 1990s. Obviously, moving *bianzhi* work from state to party control enhances the importance of this particular kind of personnel work. The move also underlines that *bianzhi* control and nomenklatura control are closely related. Seen from the party's perspective this shift of *bianzhi* management from the state to the party makes sense, since organization and personnel work are – along with ideology – core preoccupations of the party.

At the local level a similar process has taken place. Until 1988 the *bianzhi* system was primarily managed by the *xitong* of the Ministry of Labour and Personnel. But since the early 1990s *bianzhi* work at the local level has been placed under the dual leadership of the local party committee and the *xitong* constituted by the Central Commission for Institutional *Bianzhi* and its network of local commissions.

According to recent statistics, the number of people encompassed by the *bianzhi* system in the public sector amounts to roughly 36 million people.[8] Approximately two-thirds of these are employed in the *shiye danwei* and almost one-third in state and party administrative agencies. These are all on the state payroll (i.e. they "eat imperial grain"). The key group are the officials in state organs. These officials are called civil servants (*gongwuyuan*).[9] Together with party officials they form the core group of state and party cadres (*ganbu*). In 1978, there were 3.73 million bureaucrats staffing the governing system in China. In 2004, the number had increased to 9.51 million.[10]

Often Chinese bureaucracies exceed the allocated staff quota. This tendency is covered by the concept of *chaobian* (i.e. exceeding (*chao*) the *bianzhi*).[11] *Chaobian* takes place in two principal forms. One form of *chaobian* occurs when administrative levels establish more organs than stipulated by the authorized *bianzhi*. Another form is caused by a tendency to employ more personnel than the fixed quota stipulates. Associated with this type of *bianzhi* is multiplication of leadership positions.

The party controls the civil servants in two principal ways. First, 96 percent of all civil servants from division (county) level and above are party members. Second, through the nomenklatura system the party controls the appointment of the person in charge (*zheng zhi*) of administrative agencies and organs from township level and up. Third, even though these officials are civil servants and as such are managed according to the civil servant system initiated in 1993, the party also classifies the civil servants as cadres and in this sense they are also managed according to the party's cadre regulations.

Of the approximately 10 million staffing the governing system in China about 70 percent work at the sub-provincial level. Therefore developments at this level have a crucial influence on how the system works. However, there are very few studies on cadres and cadre management at the local level. This study attempts to remedy this situation by taking a closer look at the *bianzhi* and cadre management system in the locality of Yangpu Econonomic Development Zone in Hainan province.

Party set up in Hainan

Until 1988, Hainan's party organization was a prefectural-level organization under the provincial party committee of Guangdong Province. As a consequence there is no reliable information available on the numerical strength of the Hainan party organization until the start of the 1990s.

In 1991, there were 272,557 members of the CCP in Hainan. This increased to 349,495 in 2000, accounting for 4.59 percent of the population. This percentage is slightly below the national average of 5.22 percent.[12] Less than half of the membership stems from rural areas and 54,953 were women and 49,071, or 14.04 percent, were from the national minorities.[13] This is not a big percentage share considering the large number of minority people on the island. By 2000, in terms of age the percentage of young party members (25–45) was below the national average, whereas the number of party members above 61 was relatively large and only surpassed by Shanghai. Finally, in terms of the educational level, the number of party members with a higher education increased significantly from 11.8 percent of the party membership in 1991 to 20.45 percent in 2000.[14] This is, however, below the level of the national average. The largest share of the party membership had entered the party after 1992. This is different from the overall national picture where about a third of CCP members entered the Party in the period 1976–92.[15]

In Hainan, as in China as such, most cadres are not party members and most party members are in fact not cadres. Hainan has 109,868 cadres that are also party members and about 134,000 cadres that have not joined the party.[16] However, in relative terms cadres are the largest category of party members in Hainan exceeding even the farmers and fishermen who constitute the largest category at the national level as well as in in many central provinces.

The organizational history of CCP in Hainan

After the decision to establish the new province was passed, the central committee of the CCP decided in February 1988 to abolish the party committee of the former administrative district of Hainan Island.[17] This party committee was formally under the authority of Guangdong's provincial party committee. Instead the Central Committee in Beijing decided to establish a party working committee (*gongzuo weiyuanhui*) for the new Hainan Province. The Central Committee appointed Xu Shijie as party secretary and Liang Xiang, Liu Jianfeng and Yao Wenxu as his deputies. Beijing also established a nine-member strong standing committee of the party working committee headed by Xu Shijie.[18] It was decided to establish a general office and five working departments of the party working committee. These were Organizational Department, Propaganda Department, United Front Department, Political-legal Committee and an Office for Political Research. In

August 1988 a so-called Working Committee for Organs Directly Affiliated with the Provincial Party Committee (*Shengwei zhishu jigou gongzuo weiyuanhui*) was established.[19]

When the first provincial party congress of the Hainan CCP was held in September 1988, it was decided to abolish the working committee and instead establish a regular provincial party committee similar to other provinces. The working departments continued under their former names. The party congress also elected the members and head of a disciplinary committee. Xu Shijie continued as head of the provincial party organization and there was also no immediate change among the deputy party secretaries.[20] Following the June 1989 crackdown on the student movement, the reform-oriented Liang Xiang had to step down from the governorship as well as from his position as deputy party secretary. A politically weakened Xu Shijie continued to serve as party secretary until June 1990 when he retired due to "poor health." Beijing sent Deng Hongxun to Hainan to take over his post.

During the 1990s there was some reshuffling of personnel in leading party organs. In 1991, the head of the propanda department and the secretary of the disciplinary committee (the only woman in the top provincial leadership) were both appointed to the standing committee of the provincial party committee. The chairmain of the provincial People's Consultative Conference Yao Wenxu retired as deputy party secretary and member of the standing committee. Wang Yuefeng, the only representative of the Li minority population on Hainan, also retired. In 1992, Du Qinglin was sent to Hainan and appointed deputy party secretary. In 1993, when Deng Hongxun stepped down as party secretary Beijing sent former minister of labour Ruan Chongwu to Hainan to take his place and Wang Xiaofeng was also transferred to Hainan to serve as one of the four deputy party secretaries.

In July 1993, the Hainan CCP held its second congress in Haikuo city. The 300 delegates were mainly leading cadres (74 percent of the total), renowned specialists and labour models (24 percent) and a few representatives from the PLA and from the police (2 percent). The congress approved Ruan Chongwus's report and elected a new provincial party committee consisting of 32 members and six candidate members. At its first plenary session, the provincial party committee elected a new standing committee as well as a party secretary and three deputy secretaries. Ruan Chongwu was re-elected party secretary and Du Qinglin, Wang Xiaofeng and Chen Yuyi deputy secretaries. In 1996, Cai Changsong, the party secretary of Haikou City, was also promoted to deputy party secretary.[21]

When Ruan Chongwu stepped down in 1998 after more than five years as party secretary, Du Qinglin, a northerner, took over his post. Du remained party secretary for more than three years until he was transferred to Beijing in 2001 to become Minister of Agriculture. Instead Bai Keming, vice-minister of the Central Propaganda Department was moved to Hainan. He only served as Hainan Provincial party secretary for about 16 months before being transferred to Henan Province. Bai Keming was succeeded by Wang Qishan, who served an even shorter term before being transferred back to Beijing. Wang Xiaofeng, who had worked as deputy secretary for nine years, replaced him. Wang Xiaofeng stepped down in December 2006 and was succeeded by Wei Liucheng, the former president of China National Oil and Offshore Company (see Table 3.2).

As mentioned above, in 1988 the party set up a party organization in Hainan consisting of one general office and five so-called working organs (*gongzuo jigou*). These were the Organizational Department, Propaganda Department, United Front Department, Political-legal Committee and the Office for Political Research. In 1993, a Taiwan work office was added, so that there were six working departments and one general office directly under the Hainan provincial party committee. After 1993 a number of so-called affiliated committees were established directly under the provincial party committee. These were the Working Committee for Higher Education, Working Committee for Enterprises and Institutions Placed in Hainan, Working Committee of the Management Bureau of Yangpu Economic Development Zone (all established in 1993), the Working Committee for the Paracel and Spratley Islands (established in 1994), and the Working Committee for Production Enterprises (established in 1995).[22] In addition, several party factions or groups controlled the various systems (*xitong*) within the executive, legal and mass and non-governmental organizations.

Liao Xun and "small government" in Hainan

Originally it was the intention of the "founding fathers" of the new province and special economic zone to take the island beyond the other SEZs in political reform and establish a new administrative and political system called "small government, big society" (*xiao zhengfu da shehui*).[23]

One of the "founding fathers" was Hainan party leader Xu Shijie who, in his capacity as head of the "preparation group," invited a team of scholars from the Chinese Academy of Social Sciences, headed by noted economist Liu Guoguang, to prepare a series of reports that could serve as reference material for formulating a new development strategy for Hainan.[24] One of the reports dealt with reform of the political system and outlined a new system which was characterized by a reduction of government and party organs and an enlargement of the role of social organizations – "small government, big society."[25] The report was written by Liao Xun, the son of the prominent reform ideologist Liao Gailong, who had earlier done some work on the concept.

Initially, after the establishment of the new province, "small government, big society" became the overarching theme for the administrative and political reforms that were implemented. In the mid-1990s, the concept became less prominent in Hainan, but following the decision of the Ninth National People's Congress to launch a national institutional reform campaign in

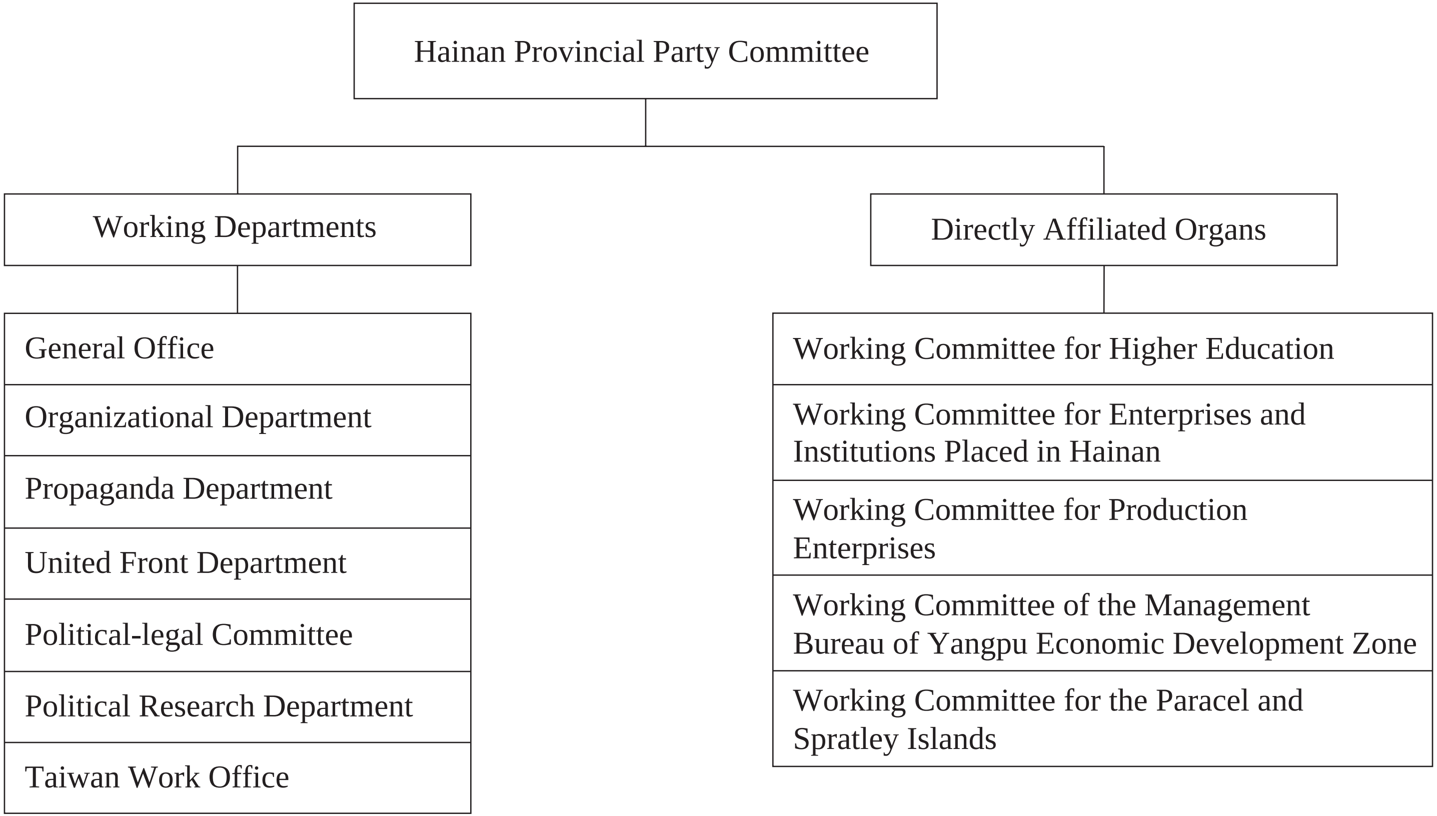
Hainan Provincial Party Committee
Working Departments
Directly Affiliated Organs
General Office
Organizational Department
Propaganda Department
United Front Department
Political-legal Committee
Political Research Department
Taiwan Work Office
Working Committee for Higher Education
Working Committee for Enterprises and Institutions Placed in Hainan
Working Committee for Production Enterprises
Working Committee of the Management Bureau of Yangpu Economic Development Zone
Working Committee for the Paracel and Spratley Islands

Figure 7.1 Administrative party structure of Hainan Province

Source: Zhonggong zhongyang zuzhibu, Zhonggong dangshi yanjiushi, and Zhongyang dang'an guan, *Zhongguo gongchandang zuzhishi ziliao, 1921–1997* (Material on the organisational history of China's Communist Party, 1921–1997) Vol. 7, Part II (Beijing: Zhonggong dangshi chubanshe, 2000), pp. 947–948.

1998, the concept received national attention and again placed Hainan at the forefront of the political reform process.[26]

The first publication devoted to "small government, big society" appeared in 1988 when Liao Xun published a booklet on the theoretical content of the concept. Entitled "Marx' and Engels' thought on 'Small Government' and current economic reform," the booklet argued that downsizing bureacracy and governmental structures was an important part of socialist reform.[27] Liao Xun emphasized that Marx and Engels had originally envisaged a "small government" in socialist society, not the "big government" of the Soviet model.

In 1991, Liao Xun published what was to become the major work on the concept, namely his *Xiao zhengfu da shehui – Hainan xin tizhi de lilun yu shijian* (small government big society – the theory and practice of Hainan's new system).[28] The core chapter of the book, which was based on Liao Xun's 1987 report, detailed a new administrative structure for Hainan Province, consisting of four systems.

The first was a political guarantee system (*zhengzhi baozhang xitong*), which included courts of law, police, matters concerning staff, personnel, and overseas Chinese affairs, etc. The second system – the social service system (*shehui fuwu xitong*) – consisted of health, education, matters concerning the minorites, and social welfare, etc. The third system, called the economic development and organization system (*jingji fazhan zuzhi xitong*), dealt with matters in agriculture, industry, transport, communication, and science and technology. Finally, Liao Xun envisaged the creation of an economic control and coordination system (*jingji jiandu xietiao xitong*), which should manage economic planning and control, taxes, and environment issues. It was Liao Xun's intention that a department (*ting*) should be established for each of these basic functions.[29]

The four systems were based on the assumption that there were certain basic functions (*zhineng*) which needed to be taken care of. There were thought to be 17 different basic functions, and administratively 17 departments were to be created to take care of these functions. In addition, two semi-governmental organs subject to the dual leadership of the provincial government and the Standing Committee of the Hainan People's Congress were established. These were a provincial People's Bank and a Statistical Office. In total, 19 high level organs were to be created. Functions other than these core functions were to be handed over to society and handled by various intermediary organizations. Thus, the plan was not only to trim the provincial government but also to redefine the role of the local state so that it would operate more according to indirect planning and no longer become involved in matters that might just as well be taken care of by semi- and non-governmental organizations. To Liao Xun, the issue was not just how big the state was, but also how it performed its functions. Hence, he wanted to change government functions in a move towards indirect economic management.

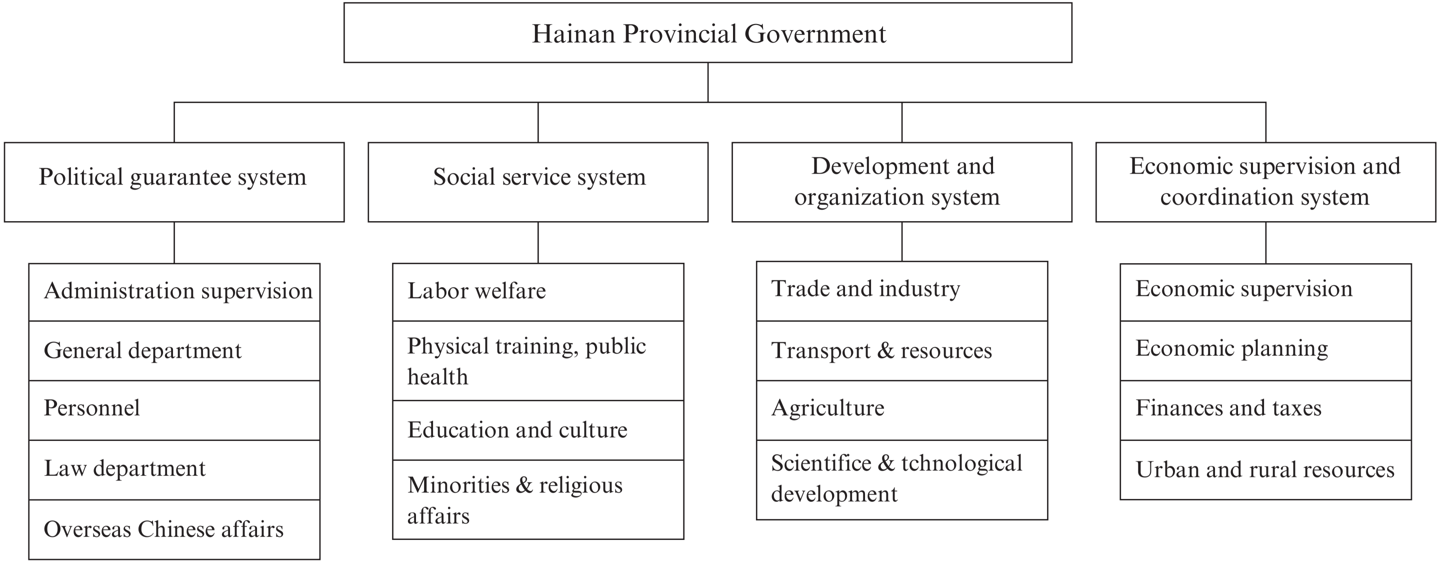
Hainan Provincial Government
Political guarantee system
Social service system
Development and organization system
Economic supervision and coordination system
Administration supervision
General department
Personnel
Law department
Overseas Chinese affairs
Labor welfare
Physical training, public health
Education and culture
Minorities & religious affairs
Trade and industry
Transport & resources
Agriculture
Scientifice & tchnological development
Economic supervision
Economic planning
Finances and taxes
Urban and rural resources

Figure 7.2 Government administrative structure of Hainan Province, 1988 (Liao Xun's idea)

Source: Liao Xun, *Xiao zhengdfu da shehui – Hainan xin tizhi de lilun yu shijian* (small government big society – the theory and practice of Hainan's new system) (Hainan: San huan chubanshe, 1999), p. 235.

In general, Liao Xun was in favor of a state construction that was reduced as much as possible, and quoted Thomas Jefferson as saying: "The best state is the state that governs as little as possible" (*guanli zui shao de zhengfu, jiu shi zui hao de zhengfu*).[30] Liao Xun also maintained that he was attracted by the theory that the individual should be considered the basic cell of society.[31] This means that the state should serve the individual and should not interfere in everything.[32] In fact, Liao Xun envisioned that in the future the state would serve three main functions: as a "soccer referee" (*zuqiu caipan*), as a "traffic police" (*jiaotong jingcha*), and as a "fire fighter" (*xiaofang duiyuan*). In serving the first function, the state would issue a set of ground rules, and it would only interfere when citizens intentionally "bumped" into each other or committed "offside." In the second function, the state would "clear the streets and bridges" and establish an orderly flow of transport and communication. Finally, in the third function as a "fire fighter," the state would intervene if fire or disaster occurred or if relief was necessary.[33]

In short, Liao Xun envisaged a state which to a lesser degree simply imposed policy and to a higher degree focused on providing the institutional arena for what he called a "scientific, democratic and orderly" policy-making process.

In 1988, the administrative setup of Hainan was actually formed according to these four systems, but there were some changes in names and portfolio (see Figure 7.3). Rather than a social service system, a system of administrative affairs was established, dealing with labour affairs, external affairs, overseas Chinese, minority work as well as with education, culture, and health issues. Instead of a system of economic supervision and co-ordination, a system of economic leverage (*jingji ganggan xitong*) was established, comprising three *ting* dealing with finance, tax, and economic supervision.[34] This system was also supposed to oversee the work of the banking sector. All in all there were 26 *ting*- level departments and offices (i.e. seven more than Liao Xun had envisaged) (see Figure 7.3). In the years 1989–90 more provincial-level organs were added.

In spite of the fact that the new administrative structure of Hainan Province from early on came to consist of more administrative organs than Liao Xun had argued for, the administrative set up was relatively lean during this first phase of the new province's history. By the beginning of 1989, there were 39 *ting* and *ju* level organs, about 20 fewer than when Hainan was still a prefectural-level administrative district of Guangdong Province. The new province did not establish a prefectural level between the provincial government and the county-level government, thereby in reality abolishing a whole administrative layer in the usual provincial administrative hierarchy. The staff (*bianzhi*) assigned to this new administrative setup was 3,500, about 200 fewer staff position compared to the *bianzhi* of the former Hainan Administrative District.[35]

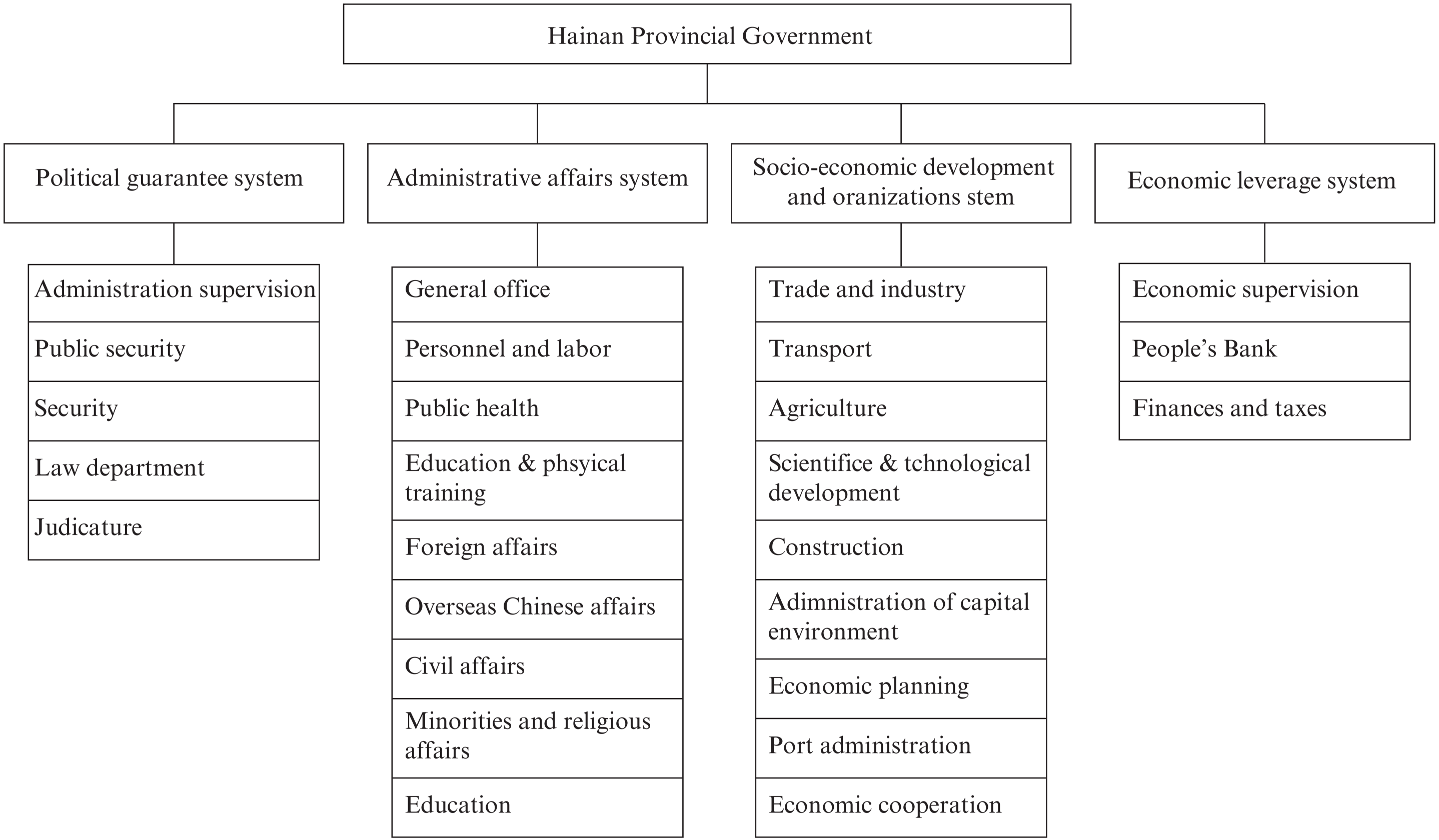
Hainan Provincial Government
Political guarantee system
Administration supervision
Public security
Security
Law department
Judicature
Administrative affairs system
General office
Personnel and labor
Public health
Education & phsyical training
Foreign affairs
Overseas Chinese affairs
Civil affairs
Minorities and religious affairs
Education
Socio-economic development and oranizations stem
Trade and industry
Transport
Agriculture
Scientifice & tchnological development
Construction
Adimnistration of capital environment
Economic planning
Port administration
Economic cooperation
Economic leverage system
Economic supervision
People's Bank
Finances and taxes

Figure 7.3 Govenment administrative structure of Hainan Province, 1988

Source: Ru Xin (ed.), *Xiao zhengfu da shehui: Hainan zhengzhi tizhi yu shehui tizhi gaige yanjiu* (Beijing: Shehui kexue wenjian chubanshe, 1998), p. 74.

During this phase there was also an attempt to keep the number of party organs under control, and the provincial party only established six organs. Moreover, there were also efforts to take a number of governmental organs and turn them into so-called economic entities in the form of general companies. In this way, the provincial leadership hoped to cut down its *bianzhi*.

However, starting already in 1989–90 the number of organs began to grow, and the ideal of "small government" began to recede into the background. This marks the second phase of administrative reform in Hainan.

Second phase of administrative reform

One major reason for the rebureaucratization process was the *duikou* problem.[36] In general, the administrative system in China duplicates the central organs at lower levels.[37] However, because of administrative reform involving *inter alia* the abolishment of administrative levels and organs, Hainan often no longer possessed administrative organs on a similar level to government organs on the mainland. Therefore, central agencies often had difficulty "speaking to" or connecting with (*duikou*) provincial organs on Hainan. This created problems when funds and resources were transferred from central sources or when Hainan had to deal with other provinces.[38] For example, Hainan had merged industrial and foreign trade work into one administrative organ – the trade and industry department (*maoyi gongye ting*). However, since these functions were still separated in other provinces as well as at the national level, Hainan officials encountered administrative problems when dealing with the rest of China in these areas. In the early 1990s, the *ting* was redivided into a trade *ting* (*shangmao ting*) and an industrial *ting* (*gongye ting*).[39]

Moreover, there was also a *duikou* problem in central–local relations within the province itself, since counties and cities in the rural areas still operated according to the old system. In short, a functional and organizational mismatch had emerged between the different administrative levels, and the provincial level had been sandwiched between the local level and the central level in Beijing. This happened at a time when the center was clearly pulling back on its reform commitment. The second phase covers a period when the central state was reassuming some of its former powers as a result of the Tiananmen debacle. There was clearly less central support for institutional change even at a testing place like Hainan, and as a result, the experiments of "big society, small government" suffered.

During this phase a number of vice-department level organs (*fu ting*) were established, including a grain bureau, a forest bureau, a tourist bureau, an administrative management bureau for industry and trade, etc.[40] Another indication of a bloating of the bureaucratic system was that the administrative agencies that had been turned into economic entities and companies began to reassume some of their old administrative functions. In addition, some *ting* set up additional internal bureaus (*ju*).

By late 1992, the provincial bureaucratic setup consisted of 60 provincial-level organs, among them 25 *ting* with 11 internal *ju*. There were also six directly subordinated bureaus (*zhishu ju*) and 18 economic entities that had reassumed administrative responsibilities and now functioned as so-called special administration departments (*zhuanye guanli bumen*). The party system had expanded to seven departments with four internal *ju* and three associated organs (*paichu*). In total, there was a staff of 6,056 people, of which 3,681 belonged to the party and government *bianzhi*, the rest to institutional and enterprise *bianzhi*.[41]

Third phase

In the third period beginning from the year 1993, a thorough reduction of administrative party and government organs was attempted. Again, a change of government functions was tried out and the economic entities that had assumed administrative responsibility were again "given back to society." Some organs were merged and some lost their independence and were managed by other departments. After the reform there were only 39 party and government organs at the provincial level.[42] Seven of them were party organs, and the rest consisted of 23 *ting*, three offices (*bangongshi*) and six *ju*, including four directly affiliated organs (*zhishu ju*). In addition, there were a number of bureaus administered by the working departments as well as a number of subordinated or affiliated *shiye danwei* (see Figure 7.4). Formally, the provincial level *bianzhi* was reduced from 4,557 to 3,850 (i.e. a reduction of 15.5 percent).[43] The number of government working organs remained the same in 1996 and it appeared feasible that it would be possible to keep up the momentum of reform.

As mentioned above, the early administrative reform process in Hainan did not reach down to the local level. However, in 1993 some experiments with administrative reform began in Danzhou city and, from 1995, these reforms were extended to other cities and even further down to the town and township level (*xiangzhen ji*). In Haikou and Sanya, city level party and government organs were cut by three to 42, reducing the *bianzhi* to 2,000. In 17 other cities and counties, the administrative organs were reduced from 59 to 25, involving a cutback of the *bianzhi* from 991 to 550 positions. At the town and township level, administrative personnel were reduced from 18,643 to 10,135 or by 45.6 percent. The result of this trimming process was that administrative personnel at provincial, city, county, town and township levels had been reduced to only 27,985 from 44,518 by 1995, a reduction of 37.14 percent.[44] However, these gains were offset by considerable *chaobian*.[45] One example of *chaobian* at the local level comes from Lingshui county. In the mid-1990s, this county with a population of 310,000 had 10,000 people on the public payroll. The *chaobian* mostly took place within the educational sector where more than 5,000 people were employed to teach about 50,000 students.[46]

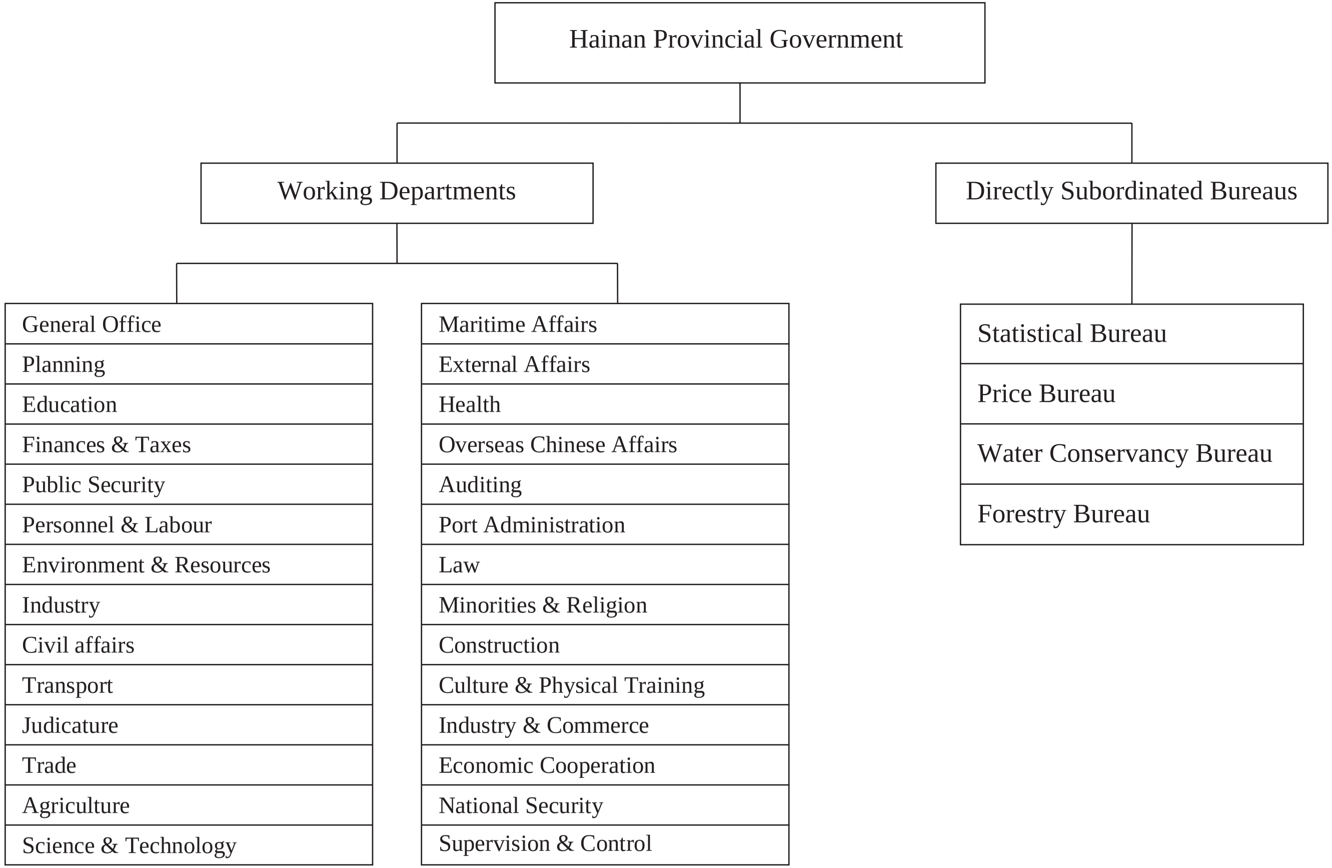
Hainan Provincial Government
Working Departments
Directly Subordinated Bureaus
General Office
Planning
Education
Finances & Taxes
Public Security
Personnel & Labour
Environment & Resources
Industry
Civil affairs
Transport
Judicature
Trade
Agriculture
Science & Technology
Maritime Affairs
External Affairs
Health
Overseas Chinese Affairs
Auditing
Port Administration
Law
Minorities & Religion
Construction
Culture & Physical Training
Industry & Commerce
Economic Cooperation
National Security
Supervision & Control
Statistical Bureau
Price Bureau
Water Conservancy Bureau
Forestry Bureau

Figure 7.4 Government administrative structure of Hainan Province, 1995

Source: Ru Xin, *"Xiao zhengfu da shehui" de lilun yu shijian* (The theory and practice of small government big society) (Beijing: Shehui kexue wenxian chubanshe 1998), p. 79.

Table 7.1 Size of administrative *Bianzhi* by province after 1993–95 institutional reform

Province	*Before reform*	*After reform*	*Reduction in percent*	*Population (in millions)*	*In percent of population*
Beijing	82,048	56,640	31.0	12.51	0.45
Tianjin	69,008	50,155	27.3	9.42	0.53
Shanghai	38,522	37,000	3.9	14.15	0.26
Hainan	44,518	27,985	37.1	7.34	0.38
Hebei	313,747	226,633	27.8	64.37	0.35
Shanxi	229,970	134,250	41.6	30.77	0.43
Inner Mongolia	182,995	119,915	34.5	28.84	0.42
Liaoning	231,050	146,855	36.4	40.92	0.36
Jilin	113,234	92,410	18.4	25.92	0.35
Heilongjiang	216,043	146,240	32.3	37.01	0.39
Jiangsu	263,602	192,605	26.9	70.66	0.27
Zhejiang	208,275	144,755	30.5	43.19	0.33
Anhui	228,538	150,855	33.9	60.13	0.25
Fujian	151,563	101,070	33.3	32.37	0.31
Jiangxi	207,853	135,390	43.9	40.63	0.33
Shandong	419,274	213,850	44.7	87.05	0.24
Hunan	330,740	202,380	38.8	63.92	0.31
Hubei	254,962	161,250	36.8	57.22	0.28
Henan	382,285	232,800	39.1	91.00	0.26
Guangdong	314,142	226,900	27.8	69.68	0.33
Guangxi	212,713	132,673	37.5	45.43	0.29
Sichuan	545,235	382,779	29.8	113.25	0.33
Guizhou	169,965	119,085	29.9	35.08	0.33
Yunnan	251,381	177,040	29.6	39.90	0.44
Tibet	NA	NA	NA	NA	NA
Shaanxi	245,379	138,500	43.6	35.14	0.39
Gansu	117,636	91,798	22.0	24.38	0.38
Qinghai	NA	NA	NA	4.81	NA
Ningxia	NA	NA	NA	5.13	NA
Xinjiang	NA	NA	NA	1.61	NA

Sources: Calculated from data in Wu Jie, *Zhongguo zhengfu yu jigou gaige*, Vol. 2 (China's government and institutional reform) (Beijing: Guojia xingzheng xueyuan chubanshe, 1998), pp. 1146–1238; and *Zhongguo tongji nianjian 1996*, p. 70.

During the mid-1990s, Hainan was still being showcased as a model of "small government, big society." However, new research seems to indicate that when compared to other provinces, the state administrative system was actually relatively "fat." In short, the rethoric of "small government" was not matched by reality. Calculated as a percentage of total population, state bureacrats constituted 0.38 percent of the island's population. As shown in Table 7.1, the percentage was only 0.25 in Anhui, 0.27 percent in Jiangsu and 0.24 percent in Shandong.

Small government in Yangpu

Yangpu development zone offers an interesting case of sub-provincial attempts to practice "small government."[47] In April 1993, in anticipation of the opening of Yangpu as a bonded area, an administration was set up consisting of a management bureau (*guanli ju*) with seven functional departments (*zhineng ju*) and one general office (*bangongshi*).

The management bureau was the principal organ and therefore ranked highest in the administrative hierarchy. The head of the bureau was appointed by and directly responsible to the provincial authorities and was ranked at the same level as department heads (*tingzhang*) in the provincial government. He was assisted in his daily work by a vice-head of bureau, an assistant to the bureau head, and the general administration office.[48]

The general office took care of the daily work of the management bureau of Yangpu. The head of the office had a rank similar to division level rank in the provincial government. Internally, the office was divided into six sections dealing with policy regulations, internal documents, communication, external news, internal management affairs, and liaison with provincial authorities in Haikou.

Below the management bureau there were seven functional departments (*zhineng ju*). These departments covered administrative functions such as land planning and development, economic development, finances and taxes, social development, transportation and communication, public security, and personnel. The personnel department shared its office and personnel with the the general office of Yangpu's party committee. The functional departments are all ranked at the division level. The departments were not divided into sections (*ke*). Instead, a system was practiced where each administrative post was filled by only one expert who administered his own administrative area (*zhuanyuan zhuban zhi*).

Some administrative functions were also handed over to 12 so-called administratively entrusted legal organs (*weituo xingzheng de fading jigou*). This formulation seems to denote that these organs are not part of the administrative *bianzhi*. They are instead part of the *bianzhi* of affiliated service organizations (*shiye danwei*). Their relationship to the functional departments is characterized by professional subordination rather than administrative subordination.[49] Although they are not, in an administrative sense, directly part of the various functional bureaus, they do work under their professional guidance and they are mentioned in the description of the administrative functions of the functional departments.[50] The *fading jigou* work within the following areas: social security, administration of state investments, tax collection, job services, commercial services, fishery, inspection of the administration of transportation fees, health service, planning and construction (real estate and proporty), attraction of foreign direct investment, financial affairs, and management of organizational affairs. The

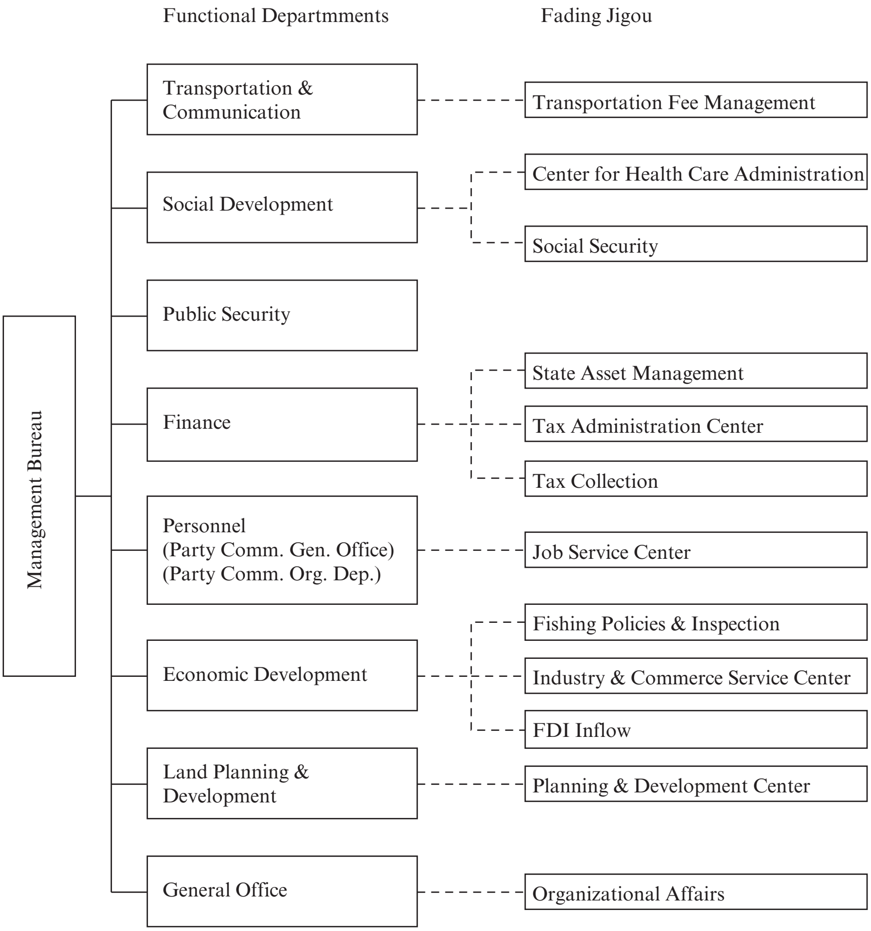
Functional Departmments
Fading Jigou
Management Bureau
Transportation & Communication
Social Development
Public Security
Finance
Personnel (Party Comm. Gen. Office) (Party Comm. Org. Dep.)
Economic Development
Land Planning & Development
General Office
Transportation Fee Management
Center for Health Care Administration
Social Security
State Asset Management
Tax Administration Center
Tax Collection
Job Service Center
Fishing Policies & Inspection
Industry & Commerce Service Center
FDI Inflow
Planning & Development Center
Organizational Affairs

Figure 7.5 Administrative set up, Yangpu Economic Development Zone

various agencies and centers formed on the basis of these functions were not ranked.

The Hainan provincial authorities had approved that the Yangpu zone would be divided into three areas, namely Ganchong, Xinyingwan and Xindu. In each of them, an administrative office was established at the vice-division level. Each office was divided into three or four sections dealing with economic affairs, social affairs, security issues, and general affairs. The three local administrative offices also guided and assisted the local residential committees.

The local party organization in Yangpu was headed by a so-called party working committee (*gongzuo weiyuanhui*). The head of the management bureau was concurrently also head of the party working committee. The daily work of the party working committee was conducted by a general office that also served as the party committee organizational department and the personnel department of the management bureau.

The *bianzhi* of the management bureau, the functional departments, and the general office comprised 70 functional posts and 78 administrative officers of which the four leading posts were actually on the nomenklatura of the provincial authorities. In addition, the department of public security had 150 people on its *bianzhi* and the party working committee had eight. These were all part of the local nomenklatura except for the four top posts at *ting* level and vice-*ting* level which were controlled by the provincial authorities. The auditing and supervision organs were also not on the Yangpu nomenklatura. In addition, the *fading jigou* were allocated a separate *bianzhi* of 124.[51]

List of positions and personnel *bianzhi*[52]

1	Management department	6 positions
	Department head	1 position
	Vice-department head	3 positions
	Assistants to the department head	2 positions
2	Office of party working committe	8 positions
	Head	1 position
	Vice-head	1 position
	Responsible for organizational work	1 position
	Responsible for propaganda work	1 position
	Responsible for disciplinary and supervision work	1 position
	Responsible for organizational *bianzhi*	1 position
	Responsible for personnel work	1 position
	Responsible for salary management	1 position
3	Affiliated party committe	2 positions
	Party secretary	1 position
	Responsible for party affairs	1 position
4	General Office of Management department	16 positions
	Head	1 position
	Vice-head	1 position
	Head of section for policy laws	1 position
	Responsible for policy laws	1 position
	Head of Office for external news	1 position
	Responsible for external news	1 position
	Head of Haikou Office	1 person
	Responsible for accounting, Haikou Office	1 position
	Head of section for internal documents	1 position
	Secretary to the head of management department	1 position
	Administrative secretary	1 position

	Secretary for confidential affairs	1 position
	Head of section for information	1 position
	Responsible for information work	1 position
	Head of auditing section	1 position
	Responsible for auditing work	1 position
5	Division for land planning and development	9 positions
	Head	1 position
	Vice-head	2 positions
	Responsible for administration	1 position
	Responsible for real estate administration	1 position
	Responsible for city planning administration	1 position
	Responsible for construction administration	1 position
	Responsible for management of environment and resources	1 position
	Responsible for municipal administration	1 position
6	Division for economic development	12 positions
	Head	1 position
	Vice-head	2 positions
	Responsible for trade administration	1 position
	Responsible for real estate economics	1 position
	Responsible for security management	1 position
	Responsible for technical supervision administration	1 position
	Responsible for industry and trade administration	1 position
	Responsible for statistical planning administration	1 position
	Responsible for market administration	1 position
	Responsible for statistical planning	1 position
	Responsible for market management	1 position
	Responsible for agricultural planning	1 position
	Responsible for trading port administration	1 position
7	Division for Public Finances	8 positions
	Head	1 position
	Vice-head	2 positions
	Responsible for forecasting	1 position
	Responsible for expenditure administration	1 position
	Responsible for tax administration	1 position
	Responsible for accounting management	1 position
	Responsible for financial management	1 position
8	Division for Social Development	10 positions
	Head	1 position
	Vice-head	2 positions
	Responsible for science and technology administration	1 position
	Responsible for civil administration	1 position
	Responsible for judicial administration	1 position
	Responsible for health care administration	1 position
	Responsible for administration of cultural affairs	1 position

	Responsible for job creation	1 position
	Responsible for population administration	1 position
9	Division for Communication and Transport	7 positions
	Head	1 position
	Vice-head	1 position
	Reponsible for administration of public road transportation	1 position
	Responsible for road administration	1 position
	Responsible for water transportation	1 position
	Responsible for harbor administration	1 position
	Responsible for collecting legal fees	1 position
10	Bureau of Public Security (positions separately fixed)	150 positions

Affiliated Legal Organs (*fading jigou*)

1	Social security department	10 positions
	• Leading positions	2
2	Office for state asset management	10 positions
	• Leading positions	2
3	Tax collection department	25 positions
	• Leading positions	2
4	Job service center	10 positions
	• Leading positions	2
5	Industry & commerce service center	15 positions
	• Leading positions	2
6	Office for fishery policies and inspection	8 positions
	• Leading positions	2
7	Inspection office for transportation fee management	6 positions
	• Leading positions	2
8	Center for health care administration	fluctuating
	• Leading positions	1
9	Planning and development center	15 positions
	• Leading positions	2
10	Department for attracting FDI	10 positions
	• Leading positions	2
11	Tax administration center	12 positions
	• Leading positions	1
12	Department for organizational affairs	6 positions

Branches of Management Department	63 positions
Ganchong	23 positions
Xinyingwan	23 positions
Xindu	17 positions

Core functions of Yangpu administrative organs

When establishing an administration in China, the allocation of *bianzhi* is closely associated with the number of core functions the new set up is supposed to take care of. This was also the case in Yangpu. For the management bureau, the functional departments and the various *fading jigou*, the functions were meticulously determined and written down. The administration bureau was established as the local representative organ (*paichu jigou*) of the Hainan provincial government.[53] Its primary function was to represent the Hainan provincial government in the Yangpu Economic Development Zone and to exercise administrative management authority over the zone and the adjacent sea territory. Other important functions were:

1 ensure the smooth implementation of foreign investors' operation of leased land;
2 lay down and circulate detailed implementation rules for the development zones' various management regulations;
3 work out, examine and approve the investment plans and the construction projects of the development zone;
4 work out the establishment of the internal working organs of the management bureau and the appointment and removal of cadres; organize implementation after approval;
5 be responsible for the administrative management of the various departments and trades of the development zone;
6 manage the development zone's planning and construction work;
7 implement economic supervision and safeguard the market economy;
8 protect social stability and social public order;
9 coordinate the work of local offices of relevant state departments; and
10 undertake other work assigned by the Hainan provincial authorities.

For the various functional departments, the core functions were also specified. As mentioned this is an important exercise, since the number and character of functions will determine the allocated personnel quota (i.e. the *bianzhi*). The Department for Economic Development, for example, had the following functions:

1 work out the zone's internal economic policies and management regulations;
2 be responsible for the registration, examination and verification of investment projects;
3 be responsible for leading and coordinating trade information;
4 supervise and inspect that the port administration unit implements regulations and regulatives;
5 supervise and inspect enterprise registration licenses, trademarks and advertising;

6. supervise and inspect the implementation of internal price policies and rule in Yangpu zone, be in charge of supervising personnel responsible for market planning and management;
7. be in charge of supervising and managing the zone's economic standards and measures;
8. be in charge of developing and planning the zone's agriculture and fishery and supervise their implementation;
9. be in charge of planning the zone's economic development objectives and the statistical work; and
10. guide, supervise, and inspect the work of the Industrial and Commercial Service Center and the Office for Fishery Policies and Inspection.

The affiliated *fading jigou* also had their functions carefully listed. The Industrial and Commercial Service Center, affiliated to the Department for Economic Development had the following main functions:

1. carry through and implement the party's and the government's economic policies and the administrative management policies and regulations of industry and commerce;
2. be in charge of handling the registration procedures of various kinds of enterprises and private enterprises (*geti gongshanghu*) and collect registration fees and carry out supervision of registered enterprises in the zone according to law;
3. take charge of managing trade marks and advertising affairs in the zone;
4. according to law confirm the legality and feasibility and conduct arbitration concerning the management of economic contracts, take charge of the investigation of relevant draft documents, formulate proposals of handling affairs, assist public security, discipline and legal authorities and other relevant institutions in investigating and dealing with economic criminal offenses conducted by enterprises in the zone;
5. manage the fair trade market of the zone, regulate the scope of market transactions, combat smuggling and corruption, protect the stability of the market;
6. provide commercial consultance for the zone's enterprises;
7. be responsible for collecting relevant material concerning industrial and commercial management;
8. distribute code numbers to the enterprises in the zone;
9. be responsible for the establishment of statistical report forms for registered enterprises and the reporting to higher administrative levels; and
10. undertake other works the management bureau may transfer.

This list of main functions for the Industrial and Commercial Service Center to fulfil clearly indicates that the center handles work that might just as well be part of the job description for the Department for Economic Development. In fact, each *fading jigou* was associated with one of the functional departments. As mentioned above, the Industrial and Commercial Service Center was required to do work assigned by the management bureau of the Yangpu Development Zone. This requirement also applied to the other *fading jigou*. Therefore, one should regard them as part of the organizational complex of the Yangpu Development Zone, although their personnel are not on the administrative *bianzhi* and thus cannot be regarded as civil servants.

Personnel on the administrative *bianzhi* were regarded as civil servants and supposed to be classified and managed according to the Provisional Civil Service Regulations promulgated in August 1993. Following the promulgation of the national regulations, a set of regulations were worked out in order to allow Yangpu zone to adapt to the new civil service system.

Civil service system

The Chinese concept of a civil service system was conceived in the mid-1980s and became part of the reform-oriented policies pushed by Zhao Ziyang at the Thirteenth Party Congress in October 1987.[54] In his report to the congress, Zhao Ziyang claimed that a key to further political reform was the separation of party from government.[55] He proposed two measures to achieve this goal. First, the system of party groups (*dangzu*) within government units should be abolished in order to prevent the party from duplicating and overlapping existing government organizations. Second, he proposed a reform of the cadre personnel system that would form the basis of a new civil service system. In the future cadres should be classified according to two categories, a political-administrative category (*zhengwu gongwuyuan*) and a professionel work category (*yewu gongwuyuan*), and only the former category should be managed by the party. The latter category was to be managed according to the relevant provisions of the constitution and the organization law and be "subjected to supervision by the public." This category of professional civil servants would have to pass examinations in open competition. Their job responsibilities would be clearly defined and their performance evaluated in accordance with statutory standards and procedures.

Due to the political fallout from the Tiananmen debacle it became difficult to implement the new civil service system. The new conservative party leaders scrapped the plans to abolish the party core groups and were in general reluctant to separate government officals from party cadres in management terms.[56] Only in 1993, following Deng Xiaoping's *nanxun* and the Fourteenth Party Congress had the political climate changed so much that a set of revised provisional regulations could be decided on and published.

The Provisional Regulations contain 18 chapters of 88 articles with separate chapters on: duties and rights, position categories, employment, appraisals, rewards, discipline, job promotion and demotion, appointment

Table 7.2 National classification scheme for civil servants

1. President of the PRC and Prime Minister: grade 1.
2. Vice-Premier and state councillor: grades 2–3.
3. Minister and Leader of province: grades 3–4.
4. Vice-Minister and vice-leader of province: grades 4–5.
5. Director of bureau (si, ting) and inspector (xunshiyuan): grades 5–7.
6. Vice-director and assistant inspector: grades 6–8.
7. Head of division (chu), head of county and investigator (diaoyanyuan).
8. Deputy head of division, deputy head of county, assistant investigator: grades 8–11.
9. Head of section (ke), head of township, chief member of section (zhuren keyuan): 9–12.
10. Deputy head of section, deputy head of township, and deputy chief member of section: grades 9–13.
11. Section member: grades 10–15.
12. Office worker (banshiyuan): grades 10–15.

Source: Kjeld Erik Brødsgaard, "Bianzhi and Cadre Management in China," in Kjeld Erik Brødsgaard and Zheng Yongnian (eds.), *The Chinese Communist Party in Reform* (London: Routledge, 2006), pp. 103–121, at p. 115.

and removal, training, rotation, avoidance, insurance and benefits, resignations and dismissals, retirement, appeals and complaints, management and supervision.[57]

Following the passing of the national Provisional Regulations, the civil service system was introduced at the local level, including in Yangpu Economic Development Zone. The introduction of the system was closely modeled on the national system,[58] but there were some variations as to the classification of civil service positions. Concerning the classification of rank and job positions below the level of the administration bureau (i.e. at the division or below), the following list applied:

1 *Leading positions*

- The Assistant to the head of the management bureau (division rank).
- Heads of second level departments and offices (division rank).
- Viceheads of second level departments and offices (vice-division rank).
- Positions in internal organs of second level departments (vice-division rank).

2 *Non-leading positions*

- Investigator (division level).
- First level responsible officer (*zhuban*) (assistant investigator).
- Second level responsible officer (chief section member).
- Third level responsible officer (deputy chief section member).
- Fourth level responsible officer (section member).
- Fifth level responsible officer (office worker).

According to the national classification scheme, these positions are at grade 7 to 15. Head of division, head of county and investigator are classified grade 7 to 10; deputy head of division, deputy head of county and assistant investigator at grade 8 to 11; head of section, head of township and chief member of sections grade 9 to 12; deputy head of section, deputy head of township and deputy chief member of section at grade 9 to 13; section member grade 9 to 14, and finally office worker is placed at grade 10 to15.[59]

It is interesting to note that an investigator is placed at division level. Thus, an investigator would be in the same grade category as a division head. However, a division head is the head of an administrative unit and is therefore at what in Chinese is called the *zheng chuji* level (real division level). This means in practice that a *zheng chuji* leader will outrank a person who is at the same administrative level, but is not *the principal leader* in an administrative sense.

The civil service system introduced in Yangpu also included some provisions concerning promotion. Normally a work experience of more than two years at the current level was required before moving up to the next higher administrative level. In order to move from a position as responsible officer to a leadership position as head or vice-head of division more than three years work experience was required in addition to work experience from at least two lower-level ranked positions. This provision has apparently been introduced in order to prevent the kind of helicoptering that took place during the Cultural Revolution.

The civil servants are part of the state administrative system. At lower levels the state personnel department can make decisions concerning appointments. In Yangpu the personnel division handled appointments at section level and below, subject to approval by the management bureau. However, administrative positions at vice-division level and above were discussed by the party committee (the working committee) before it was sent to the management bureau for approval. In this way the party's influence on promotions was secured.

As mentioned above, the civil service regulations for Yangpu Economic Development Zone included detailed provisions concerning a number of issues such as training, evaluation, "avoidance," demotion, retirement, etc. There were even detailed regulations concerning material rewards (*jiangli*) for especially able civil servants. Apparently there was a need to outline the new system in great detail. The overall impression is that the Hainan authorities took great pains to establish a bureaucratic superstructure in Yangpu that corresponded to the national level system.

Yangpu party set up

The Hainan provincial party committee is represented by the CCP working committee of Yangpu Economic Development Zone (*zhonggong Yangpu jingji kaifa qu gongzuo weiyuanhui*). The working committee is headed by a secretary who is currently also head of the management bureau of the zone and a vice-secretary. The working committee practices the so-called committee system (*gongwei huiyi zhidu*).

In addition to handling day-to-day affairs, the general office of the working committee takes care of organizational affairs and propaganda work. It shares an office with the department of supervision and auditing, the discipline and inspection committee and general office of the management bureau. The most important function of the party working committee is to recommend the appointment of division-level cadres and to appoint and dismiss party cadres in the zone.

According to the internal rules of procedure the party working committee meets regularly on a Thursday morning the first week of each month.[60] There is a quorum requirement and more than 50 percent of the full members have to attend in order for the committee to meet. Upon requirement, lower level party leaders or other relevant persons may attend in a non-voting capacity. Similarly, the head or vice-head of the working committee's general office usually attend in a non-voting capacity. The most important tasks of the party committee include discussing and deciding on a list of recommended names of responsible persons in the functional departments and the general office. These are all positions at the division-level, the level below the management bureau and the party committee. Other personnel matters include establishing party organs such as basic level party organs, general party branches and party groups. Personnel work also involves approving, appointing or demoting secretaries and vice-secretaries of basic-level party committees and general party branches and the members of the leading party groups in addition to having the authority to appoint leading personnel in the working committee's working organs. In short, in personnel matters the party committee follows the rule of one-level down appointments. Thus, the authority to appoint at the management bureau level rests with the provincial authority in Haikou. The provincial government makes the appointment in the administrative sector based on party recommendations made by the Hainan provincial party committee. In Yangpu leading local positions at the next lower level (division level) are filled by the management bureau on the recommendation of the Yangpu party committee (the working committee). Internal party appointments are handled by the party itself.

1996 proposals

In 1996, a so-called research and investigation group put forward a draft proposal concerning institutional reform in Yangpu Economic Development Zone.[61] The draft aimed to conduct experimental institutional reform in Yangpu and was worked out on the basis of a 1995 central circular on institutional reform experiments in development zones.[62]

The name of the new administrative setup was to be "The management bureau of Yangpu Economic Development Zone" (*Yangpu jingji kaifa qu* *guanli shu*). The head of the new system (*shuzhang*) was to have the rank of a provincial head of department (*tingzhang*). The head of the management bureau would be assisted in his work by an assistant head (*shuzhang zhuli*) with rank of vice-department head (*tingzhang*) and an assistant for specialized work (*zhuanxiang gongzuo zhuli*) with division-level rank and the head of the administrative office of the management bureau. There would be no formal post as vice-bureau head (*fu shuzhang*).

The administrative setup was now reformed to cover more tasks and assignments. There would still be seven functional departments including a supervision and auditing department as well as a public security department. The department for land planning and development would be abolished, but the department of supervision and auditing would be added as a functional department of the management bureau. The plan envisaged the reduction of the *fading jigou* from 12 to seven. The head of *fading jigou* (division or vice-division level) and the vice-head (vice-division or section level) would be regarded as civil servants, but the rank and file office workers would not be ranked.[63] As a consequence, the *bianzhi* of the *fading jigou* would still be considered part of the *shiye bianzhi* of the zone rather than the administrative *bianzhi*.

The plan operates with an administrative *bianzhi* of 180, not including the *bianzhi* of the inspection department and the public security department which was still kept separate from the allocated administrative *bianzhi* of the zone. This is a 29 percent increase compared to the previous administrative *bianzhi* of 139. The *fading jigou* is allocated a *shiye bianzhi* of 100, which is a 19 percent reduction of the previous *bianzhi* of 124. In addition, schools and hospitals were to be allocated a bianzhi of 400. If one assumes that the inspection and public security would be still allocated a *bianzhi* of around 150, the public employed bureaucracy would amount to about 800 people. The draft specifies that this *bianzhi* should remain unaltered in the period 1996–99.

According to the draft, the administration bureau would have the authority to draft or plan the number of administrative organs. However, the plan had to be approved by provincial authorities before implementation. A similar procedure had to be adopted concerning possible expansion or reduction of administrative posts. In relation to *fading jigou* the administration bureau would have more authority and would be allowed to establish and abolish these organs subject to reporting to the provincial authorities.

The plan was never fully realized. Yangpu Economic Development was slow in attracting the much-needed investment and therefore the development of the zone took place at a lower pace than anticipated and this influenced the establishment of the new administrative system. Currently the administrative setup has a *bianzhi* of 128, including the local party setup. The *fading jigou* has been cut down to three resulting in a reduction of their *bianzhi* to 40. Public security and police have been allocated a *bianzhi* of about 120 and there are about 300 teachers. Altogether the local bureaucracy of Yangpu Economic Development Zone now consists of approximately 600 people.[64]

Institutional reform

Following the 1998 decision to begin institutional reform, Hainan again received considerable attention because the Hainan slogan of "small government, big society" was used as the overarching theme of the renewed reform process. The interest in Hainan was stimulated by the above-mentioned 1998 CASS authoritative study on Hainan's political and social system reform, which explicitly referred to the island as a model for administrative reform.[65] During the 1998–2002 round of administrative reform, provincial government departments were reduced from 38 to 32. Three departments were abolished and the remaining three were merged with other departments.[66] This left Hainan with fewer departments than any other province in China. However, compared to other special economic zones and development zones, such as Shenzhen and Pudong New Zone, Hainan's bureaucracy is still strong. Thus, there are only 10 departments in the Pudong New Area, including organs of the party and government.[67]

The above seems to indicate that attempts to introduce "small government" are closely linked to central attempts to implement nationwide institutional reforms. Since 1988 there have been three major rounds of national institutional reform – in 1988, 1993, and in 1998.[68] These reforms have been concerned with the so-called *san ding* (three fixes). The concept of *san ding* has three interlinked aspects. The first is to fix the functions of the public sector (*ding zhineng*) which involves defining the necessary functions of the state and its administrative organs at different levels. The general objectives are to change the functions of government and separate the government from the enterprises (*zhengqi fenkai*) and the government from the party (*zheng dang fenkai*).[69] Government departments are supposed to shift their attention to macroeconomic control, leaving direct management to the enterprises themselves. Furthermore, many functions appropriated by the state should be given back to society and handled by the market or new social intermediary associations (*shehui tuanti*).

The second aspect of institutional reform is to fix the administrative organs or agencies (*ding jigou*) in an attempt to cut down the number of state and party organs at central and local levels. This effort is based on the *ding zhineng* mentioned above in the sense that the number of administrative organs will depend on determining which functions the state should take care of and which should be handed over to society. The latter functions will have their institutional representation in the state administrative system reduced or perhaps even abolished.

The third aspect is about the fixing of personnel (*ding renyuan*). It involves a process of determining the type and number of posts (*bianzhi*) needed to take care of the functions and administrative organs deemed necessary. Each attempt at institutional reform has been based on the premise that the bureaucracy is too large and that there should be a substantial cutback in personnel.

The objective of institutional reform has been to create a leaner and more efficient public sector by shedding non-essential functions and by downsizing the bureaucracy. The objective has not been to abolish the state, but to create a leaner state by redefining the goals of the public sector in terms of what should be taken care of by the state and what should be taken care of by society.

The various phases of small government reform in Hainan have coincided with the major national reform efforts. Liao Xun's ideas were formulated at a time when the 1988 institutional reform efforts were already being discussed at the center. The 1993 efforts to bring small government into focus again coincided with the 1993 national institutional reform campaign. Similarly, there are clear parallels between national and local Hainanese efforts in 1998. In this sense, one can see the "small government, big society" slogan as a local application of national ideas on administrative reforms.

However, the slogan as such originates in Liao Xun's writings. Moreover, there are elements in Liao Xun's and the Hainan authorities' understanding of "big society" which cannot easily be subsumed under the label of administrative reform. In fact, the "big society" concept implies the emergence of a civil society discourse in China. We will turn to this in the next chapter.

8 “Big society” in Hainan

Content and aim

The concept of “small government, big society” has two core aspects. One is to streamline and simplify the administrative system and make it correspond to a market economy, the other is to develop social intermediate organizations (*shehui zhongjie zuzhi*) in order to improve society’s capacity for self-organization and self-government.[1]

The core content of “big society” was independent or autonomous self-management. This entailed expanding the position of the individual, the “real building block” (*xibao*) of society, who should have the right to freely choose his education and occupation.[2] Enterprises should be guaranteed the right to run their own affairs and this should apply regardless of the type of ownership. Trade unions were to be reformed so that they better reflected the interests of their members and they should provide for their own funds. A new association of industry and commerce was to be established making it possible for private foreign enterprises to have their interests represented.

The most important and original part of “small government, big society” concerned the establishment of various forms of social and non-governmental organizations and associations (*shetuan*) such as consumer organizations, employment bureaus and different functionally defined interest groups. Some Hainan leaders even argued for the creation of private legal consultancy/advisory organizations and private law offices. Finally, there were plans to further the democratization of political power in villages and towns and let locally elected committees have full power over local finance, public construction, health facilities, etc., in their area.[3] In short, “small government, big society” aimed to substantially reduce government functions. Instead, an autonomous sphere consisting of the independent activities of the citizens and their own associations and organizations would be allowed to develop.

In this context it is important to note that the current discourse in China explicitly links “small government, big society” to the concept of civil society. Thus, the 1998 report by a CASS research team headed by Ru Xin argues that an important part of the reform of the social system on Hainan is to change the relations between government and civil society (*minjian shehui*) because this will create social space (*shehui kongjian*) and stimulate the enthusiasm of people. Though there were mass associations under the old planning system, these were totally integrated into a unified government structure and had no independence. The new intermediate social organizations would not only create new social space and new channels for communication, but also strengthen horizontal relations at the grass-roots level.

Originally, the term "small government, big society" was not explicitly associated with the concept of civil society. Liao Xun first mentioned that these two concepts are theoretically related in an essay published in 1994.[4]

The focus on civil society does not mean that the CASS research team aims to do away with the state. But the state and its organs should only take care of those functions which the market and society cannot handle, such as issues dealing with scarce natural resources and the environment, education and talent development, the prevention of monopolies, and the strengthening of Hainan's competitiveness. As mentioned above, Liao Xun also argues that the state should only serve a limited number of functions and act only as a "soccer referee," "traffic police," or as a "fire fighter." As a "soccer referee," the state should only interfere when the players intentionally broke the rules of the game. In its function as "traffic police" the state should make sure that the communication and transport lines of society functioned well. Finally, the term "fire fighter" refers to the state's role in case of an emergency situation.

The CASS research team mentioned above believes there are eight functions for the state to manage. But basically their position is the same as Liao's: the state and the government shall only take care of the tasks and the functions that the society, market, and enterprises cannot handle themselves.[5]

It is precisely here that the intermediate organizations have a role to play, filling out the social space left by a state seeking to redefine its involvement with society.[6]

The CASS research team divides social intermediate organizations in Hainan into three kinds: social associations, "people-run" social undertakings, and transitional intermediate organizations.

Social associations

The first and most important kind of social intermediate organization is the social association (*shehui tuanti* or just *shetuan*).[7]

According to information from the Hainan provincial government in 1992 there were 253 social associations in Hainan.[8] Of these 189 related to the whole province, 30 were specific to Haikou and the rest were located in other cities and counties. The provincial-level *shetuan* can be divided into different categories.

The most numerous category consisted of academic or scholarly (*xueshu*) assocations formed in order to promote education and research within certain areas. There were 94 of these and they ranged from study assocations such as the Hainan Environmental Science Study Group to various cultural groups and associations such as the Hainan Philatelist, Calligraphy and Photography Association of the Staff and Workers of the Non-Ferrous Metal Industry.

A second category comprised associations or societies (*xiehui*) that were establishing links between different sectors of Hainanese society or between Hainan and various circles abroad (*lianhexing shetuan*). There were 31 associations in this category. Examples include The Hainan Association for Young Enterprise Managers. About a third of the assocations in this category consisted of various friendship associations, for example, The Hainan Association for Returned Overseas Chinese from Singapore and Malaysia. In addition, there were some promotional associations (*cujin hui*) such as the The Hainan Association for the Promotion of Cultural Exchange.

A third category consisted of specialized associations (*zhuanyexing shetuan*). Most of these took the form of *xiehui*. There were 53 of these associations and examples include The Hainan Association of Registered Accountants and The Hainan Association of Calligraphers.

Finally, there was a fourth category with 11 branch associations (*hangyexin shetuan*). They dealt with specific sectors of the economy such as property development (The Hainan Real Estate Association) or the development of the textile industry (The Hainan Association of Textile Industry).

In reality, the border lines between these different categories are often blurred and some of the branch associations could just as well be placed in the category of specialized associations and vice versa.

The CASS research team, which has had access to newer data on the formation of *shetuan* on Hainan, distinguished between five different categories: *xiehui*, Foundations (*jijinhui*), Study Assocations (*xuehui*), Research Associations (*yanjiuhui*), social associations pertaining to overseas Chinese and "other."[9] By mid-1997 there were 892 of such social intermediary organizations in Hainan – a seven-fold increase compared to 1990. Of these 451, or 52.8 percent of the total number, were formed at the provincial level, 145 (16.2 percent) at the city level (Haikou and Sanya) and 276 (30.9 percent) at the county level. Most of these were either *xiehui* or *xuehui*. Thus, among the provincial associations, the *xiehui* numbered 164 or 34.8 percent of the total number, *xuehui* 132 (28 percent), yanjiuhui 68 (14.4 percent), *jijinhui* 8 (1.7 percent) and different friendship associations, alumna associations, promotional associations, etc. 78 (16.5 percent).

Most of the social organizations on Hainan were formed in the first half of the 1990s. In particular 1993 and 1994 saw a rapid increase in the number of new *shetuan* (see Table 8.1). It was especially *xiehui* that saw a rapid growth whereas the increase of foundations was less pronounced. However, combined *yanjiuhui* and *xuehui* still make up a large share of the total number

Table 8.1 The growth of *Shetuan* in Hainan Province, 1993–96

Year	*No. of* shetuan *at year-end*	*Applied for registration*	*Approved for registration*	*Cancelled registration*
1993	524	145	119	9
1994	678	177	164	10
1995	790	137	118	6
1996	872	–	99	17

Source: Ru Xin (ed.), *"Xiao zhengfu da shehui" de lilun yu shijian: Hainan zhengzhi tizhi yu shehui tizhi gaige yanjiu* (theory and practice of "small government, big society": research on the reform of Hainan's political and social system) (Beijing: Shehui kexue wenxian chubanshe, 1998), p. 283.

of *shetuan*, especially at the provincial level, but less so at the county level. Altogether 500 of the 872 *shetuan* were formed in the 1993–96 period.

The total membership of these organizations amount to several hundred thousand. It is especially urbanites that are organized, whereas the countryside is trailing behind.

In addition there are an increasing number of "people-run" (*minban*) organizations that are not required to register with the Ministry of Civil Affairs. These are called "people-run" non-enterprise organs (*minban fei qiye jigou*).[10]

"People-run" social undertakings

"People-run" non-enterprise organizations or "people-run" social undertakings (*minban shiye danwei*) are not required to register with the organs of the Ministry of Civil Affairs. Instead they can register with the Bureau of Commerce and Industry or some other branch of the administrative setup. They must not be engaged in commodity production or foreign trade activities. They are usually non-profit making operations and chiefly perform social service work. Examples of "people-run" social undertakings include "people-run" schools and hospitals, law offices, and accounting offices.

By November 1996 there were 2,758 of such social intermediate organizations with 10,955 employees. Medical organizations comprised 1,444 or 57.4 percent of the total number; cultural and art undertakings numbered 665 (24 percent); sports activities 361 (13.3 percent) and schools 228 (8.3 percent). In addition there are now various law offices, accounting and auditing offices, arbitration organizations, organizations for metering and quality inspection; communication and consulting offices, and employment centers. There are at least 200 such organizations.[11]

This aspect of recent development on Hainan is important as it shows that a number of functions are indeed taken over by society, indicating an increasing social sphere where non-state and non-party social groups and forces dominate.

Transitional intermediate organizations

A third kind of social intermediate organization in Hainan is the transitional intermediate organization coming out of government departments. Similar to the "people-run" social undertakings, these also are not required to register with the Ministry of Civil Affairs; they are also oriented towards social service functions or economic functions. A number have evolved from specialized economic administration departments and have been turned into economic enterprises or entities (*jingji shiti*) such as general companies or corporations. But as they have evolved from the administrative organs, they are closer to the formal government structure, and are often still associated with the government organs from which they have been separated. For example, they are often still linked to the government staff allocation system (*bianzhi*) and enjoy some financial advantages.

However, since the general direction of the development of these organizations is towards real social intermediate organizations in terms of financial affairs and self-management, they are regarded as a form of social intermediate organization.

In the clear reform years of 1988 and in 1993, the formation of these organizations was particularly pronounced. However, both periods were followed by processes where the organizations tried to resume some of their old administrative functions and responsibilities. Thus, it is a continuous battle to ensure that a rebureaucratization process does not take place.

Civil society

The intense associational activity in Hainan, in combination with the rapid privatization process in Haikou and other urban areas, seems to indicate that a "big society" has emerged in Hainan's cities. The question is whether one can call this kind of social development a civil society. In the literature, the concept of civil society in relation to China has mostly been discussed in its Havelian sense. Here state–society relations are seen as a zero-sum game. The stronger the society, its institutions and organizations, the weaker the state and vice versa. The Havelian version also posits a certain amount of autonomy on the part of the newly emerging social groups and forces. They constitute a space that the state does not control, however much it might so desire.[12] The formation of *shetuan* has been used as an indication that such a civil society is emerging.[13] The *shetuan* are not directly controlled by the party, and they have a certain amount of autonomy.[14]

An important part of the concept of civil society is the public sphere. This means that in addition to the active and independent social associations, a vibrant civil society would also see the existence of a public sphere of relatively independent public debate. Jurgen Habermas traces the origins of a public sphere in Europe back to the tea houses that emerged in the eighteenth century, where the bourgeoisie would sip their tea while discussing public issues. Later newspapers, books and other printed media also became part of such a public sphere.

Hainan does have an increasing number of teahouses where people meet and there are also a great number of newspapers and publishing houses. In 1997, 49 newspapers and 96 magazines were published on the island. There were five publishing houses that published 515 different books.[15]

However, one could argue that the political and social impact of the formation of *shetuan* is limited since they must either register at the local office of the Ministry of Civil Affairs or with some other branch or organ of the administrative setup and affiliated institutions and organizations. Thus, rather than a picture of spontaneously formed associations one sees a strong role of the state in establishing and managing these associations. As to the public sphere and independent debate in teahouses, newspapers and magazines, it is important to note that more than half of the newspapers and almost two-thirds of the magazines are *neibu* (i.e. they are internally circulated in party and state organs and therefore not openly part of the public realm). The party keeps an eye on the media and the public debate and does not allow the publication of books, magazines and newspapers that are not registered and do not have an official license to publish. Therefore it is difficult to claim that an independent public sphere in Hainan forms part of a vibrant civil society.

The decision to establish the new province was taken at a time when the government decided to streamline and trim the central and provincial bureaucracies. These bureaucracies had become too large. Therefore, the "small government, big society" can be viewed as a way of conceptualizing necessary administrative reform rather than a way of introducing civil society in China (Hainan). As mentioned, Liao Xun himself had no idea about the possible connection between his theory and the concept of civil society until 1994, when he published an article explicitly making the link.

But does China really need a small government? Is government and state in China really overbloated and how does the size and function of government in China compare to other countries? We will address these issues in the following section.

Does China need a small government?

During the 1980s and most of the 1990s the critique of big government was the dominant theme of public policy and debate. Conservative ideas in the form of neo-liberalism re-ascended throughout most of the developed world and following the Thatcher and Reagan regimes Western economic thinking shifted towards the right advocating "small government, big society" as a way of reducing fiscal deficits and creating more efficient public management. In the developing world international financial institutions such as the International Monetary Fund (IMF) and the World Bank advocated measures (the so-called Washington Consensus) to reduce state intervention in economic affairs. Essentially this was the prescription IMF suggested, if not dictated, to cure Asia of the Asian Financial Crisis in 1997–98.[16]

The Washington Consensus refers to a set of policies that focus on privatization, liberalization and macro-stability in the domestic arena. In the international arena the Washington Consensus advocates market fundamentalism, globalization of financial systems and reduction of state activity. It is a strategy that stands in stark contrast to the developmental state model that the East Asian tiger economies pursued through the 1960s and 1970s.

As discussed above in the mid-1980s and most of the 1990s Chinese scholars also advocated "small government." China was burdened with a large state sector and heavy welfare payment from its SOEs and it was thought that a smaller government would stimulate economic and political reform. The slogan of "small government, big society" entailed the twin goals of trimming government and enlarging the role of social organizations and other non-state organizations. However, in reality the focus was on downsizing and involved quantitative reductions of the size of the bureaucracy and government agencies regardless of qualitative improvements. In short, institutional reform in China centered on reducing the scope of the state rather than improving institutional efficiency.

As China's economic reform proceeded, with the government pushing for SOE reform including laying off workers (*xiagang*) and reducing social security benefits, central government revenues were substantially reduced. Today the Chinese public sector is actually quite small by international standards in terms of government revenue and expenditure as well as in terms of employment.

There are 64.38 million people on the state payroll in China.[17] Of these 28.41 million work in productive enterprises such as manufacturing and construction; 25.34 million work in health, education, culture, social services and other *shiye danwei*. There is a core group of 10.63 million officials in government and party agencies. In addition, there are more than three million in the military and in the People's Armed Police (PAP). These people are encompassed by the *bianzhi* system and are said to "eat imperial grain" (*chi huangliang*).

The Chinese often claim that the number of people "eating imperial grain" has increased dramatically and that the country has become highly bureaucratized. The reality provides another picture. State-salaried people in China constitute 5.1 percent of the total population and 8.6 of total employment. In comparison, the percentage in Denmark is 14.9 percent and 29.9 percent, respectively. If the employees in productive enterprises in China are taken out the remaining 35.96 million employees in *shiye danwei* and in state and party administrative organs account for only 2.9 percent of the population or 4.8 percent of the total number of employed people. In comparison, the Nordic countries employ between one-quarter and one-third of their workforce in the public sector. Finland is at the lower end, Sweden and Norway

Table 8.2 Public sector employment in selected countries (in thousands)

Country	*Total employment*	*Public sector employment*	*in %*
Denmark	2,689	805	29.9
Finland	2,356	613	26.0
Norway	2,258	753	33.3
Sweden	4,213	1,383	32.8
USA	131,412	21,618	16.4
Hong Kong	3,287	238	7.2
Japan	63,290	9,870	15.6
Korea	22,557	2,534	11.2
Thailand	35,711	2,878	8.1
China	752,000	64,380	8.6

Sources: OECD, *Labour Force Statistics, 1984–2004* (Paris: OECD, 2005); www.laborsta.ilo.org; *Zhongguo tongji nianjian 2005*, p. 17.

Table 8.3 Government revenue as percentage of GDP in China

1978	31.2
1980	25.7
1985	22.4
1989	15.8
1990	15.8
1991	14.6
1992	13.1
1993	12.6
1994	11.2
1995	10.7
1996	10.9
1997	11.6
1998	12.6
1999	13.9
2000	15.0
2001	16.8
2002	18.0
2003	18.5
2004	19.3

Source: *Zhongguo tongji nianjian 2005*, p. 271.

at the higher and Denmark in the middle. Among the developed countries Korea has one of the lowest percentages of public sector employment as a percentage of total employment (11.2 percent in 2004) (see Table 8.2).

The comparatively small size of the Chinese government is also reflected in the fact that government revenues in China only account for 19.3 percent of GDP (see Table 8.3). In the Nordic countries government revenue accounts for more than 50 percent of GDP (see Table 8.4). In Japan the percentage is 31.6 percent and even in the United States government revenue amounts to 29.6 percent of GDP. During the 1990s the ratio of state

Table 8.4 Government revenue in selected countries as percentage of GDP, 2004

Denmark	57.6
Finland	53.2
Sweden	58.7
United Kingdom	40.1
Euro Area	45.4
USA	29.6
Japan	31.6
China	19.3

Source: European Commission, *European Economy*, No. 5 (2005), p. 138; *Zhongguo tongji nianjian 2005*, p. 271.

revenues fell to about 10 percent, generating doubts about the Chinese state's extractive capacity.[18]

In Hainan there are 579,336 people employed by the state, constituting 7 percent of Hainan's total population and 15.1 percent of the workforce. This is a higher percentage than the national average and is a reflection of the continued strength of the state sector in Hainan. Employees in the *shiye danwei* and organs of public management in 2004 only accounted for 208,000 people (i.e. 2.6 percent of the population or 5.5 percent of total employment on the island).[19] In terms of tax revenues, Hainan only generates local revenues equal to 11.9 percent of its GDP.[20]

In sum, China does not appear to have excessive government in terms of number of employees and revenue extraction. The same observation also appears to be valid in the Hainan case, although the opposite is argued in many Chinese publications and by reformers in Hainan. There are three important consequences of this preoccupation with big government.

The first is that institutional reform tends to focus on quantitative reductions of personnel and administrative organs rather than on qualitative improvements in terms of efficiency and capability. Since the Third Plenary Session of the CCP Central Committee in September 2004, the Chinese leadership has advanced the notion of governing capacity (*zhizheng nengli*).[21] This concept seems to be a reflection of a perceived need to reorient the goals of institutional reform. However, downsizing and trimming of government bureaucracy are still dominating the official discourse as it appears in public media and in policy documents.

The second is that there are often two few officials and public employees to take care of a number of essential functions the state needs to handle. As China develops the government will have to spend more on education, health, social security and on creating the preconditions for sustainable development. Further reductions of the bureaucracy in terms of personnel and financial resources could seriously affect the regime's governing capacity.

The third is that local governments in China often disregard the central government's directives in this area by dragging their feet and slowing down the implementation of central directives. As we have seen, rounds of downsizing are often followed by a process of re-bureaucratization as displaced bureaucrats succeed in working their way back or as new functions and tasks are defined. This is certainly the case at the central level where we have witnessed four major rounds since 1988 and a minor one in 2002. Also in Hainan these cycles of downsizing and re-bureaucratization have occurred. Often local government will simply hire additional staff on a temporary basis and in disregard of the *bianzhi* they have been allocated. This form of *chaobian* has also taken place in Hainan.

Rather than focusing on the numerical reductions of the past, the Hu-Wen leadership appears to have chosen to focus on qualitative change in its approach to governance and social and economic change. Wen Jiabao dealt with the topic in some detail when delivering the government work report at the annual meeting of the National People's Congress in March 2005.[22] He said that "we must work hard to build a service-oriented government" and make innovations in the "style of government." He further added that it is necessary to focus on providing service to enterprises, the general public and lower levels of government. Administrative resources need to be better integrated and administrative costs lowered to improve administrative efficiency and the level of services. In April, at the Fifteenth Session of the Standing Committee of the NPC the new Civil Servants Law was adopted setting out requirements for public officials to be recruited through, just, open and fair examinations.[23] In October 2006, at the Sixth Plenum of the Sixteenth CCP Central Committee it was also discussed to expand the public feed back apparatus in order to allow different social groups to better articulate their grievances and on January 17, 2007 the state council approved China's first national regulations on public disclosure of government information.[24]

The new policy orientation is embodied in a number of new slogans such as "taking people as the foundation" (*yi ren wei ben*)[25] and building a "harmonious society." In formulating and executing policies a "scientific development concept" (*kexue fazhanguan*) should be adopted.[26] The new line has found a clear and almost paradigmatic expression in the Eleventh Five-Year Plan adopted at the Fourth Session of the National People's Congress in March 2006[27] and in the "Decision of the Central Committee of the Chinese Communist Party Concerning Some Important Questions in Building a Socialist Harmonious Society," which was adopted at the Central Committee in October 2006.[28]

The concept of "harmonious society" was first propagated in the Resolution of the Sixteenth Party Congress in November 2002 and further elaborated at the Fourth Plenary Session of the Sixteenth Central Committee in September 2004. In an important speech by Hu Jintao in February 2005, but only published in July 2005, the Chinese leader argued that a harmonious society is the "foundation for the consolidation of the governing capacity of the party and the realization of its leading role."[29] At the recent October 2006 plenary session of the Central Committee "harmonious society" was finally elevated to take the position as the key policy concept of party and government.

Associated with the new focus on creating a "harmonious society" are plans to implement a green GDP index system. The new system intends to provide a measure of the relationship between economic growth, welfare, and environmental changes and it will place a premium on local cadres' success in addressing issues concerning medical care, education, recreation and environmental protection.

The new policy orientation fundamentally questions the Washington Consensus. Thus there is a post-Washington Concensus emerging in China based on the realization that governments matter and that China did comparatively well during the Asian Financial Crisis precisely because it hesitated to adopt the Washington Consensus. Intellectual circles in China have warmly welcomed a recent critique of the Washington Consensus by Stiglitz who argues that there is no theoretical underpinning to believe that in early stages of development, markets by themselves will lead to efficient outcomes.[30] Stiglitz also argues that the Washington Consensus ignored market failures, viewed government as the problem and proposed massive cutbacks of government. Instead the question should have been asked: which measures are necessary to improve *both* markets and government.

In China the post-Washington Consensus has been dubbed the "Beijing Consensus." The new consensus is as much about social change as economic change. It looks beyond measures like per capita GDP and focuses on the quality of life and sustainable development, assuming that this is the only way to manage the massive contradictions arising from China's economic development. The Beijing Consensus also takes issue with Deng's famous formulation that the color of the cat does not matter, as long as it catches mice.[31] According to the Beijing Consensus the color of the cat *is* very important. The goal is to find a green cat, a cat that is transparent.

In this context it is a setback that the present Chinese leadership has given up on its attempts to separate party from government. The slogan of separating party from government figured prominently during Jiang Zemin's era, but is no longer present in the public discourse. There are numerous references to the need to separate government and enterprises (*zhengqi fenkai*), government and affairs (*zhengshi fenkai*), and government and funds (*zhengzi fenkai*), but there is silence concerning the slogan of separating government from party work and affairs (*zhengdang fenkai*).

Instead there is much talk of merging party and government departments whose functions are similar and a system of overlapping of post and leading members of the party and government (*dangzheng lingdao chengyuan jiaocha zhiwu*) is propagated. Thus in many counties the party secretary has taken over the position as head of the county in addition to being chairman of the local people's congress. The vice-party secretary is often put in charge of the functional departments of the local government.

Allegedly the aim is to save on the budget by having fewer administrative heads in charge. In addition, this measure is viewed as a way of improving and streamlining administrative performance by concentrating local executive and legal powers in fewer hands. However, this thinking is a reflection of a quantitative approach and therefore runs counter to more qualitative attempts to create a more efficient government. In short, it goes against the call of the Beijing Consensus for transparency and a system of checks-and-balances.

9 Hainan and regional cooperation

While the economy of Hainan stagnated during the 1990s, the Pan-Pearl River Delta in Guangdong Province emerged as China's most dynamic economic area. Guangdong Province has for the last two decades registered growth rates higher than most other provinces. It has for 15 years been the number one province in China in terms of attracting foreign direct investment and it has consistently accounted for one-quarter of the value of China's export to foreign countries. Guangdong benefits greatly from its proximity to Hong Kong and Macao. Most of Hong Kong' s manufacturing capacity has shifted to the Pearl River Delta and more than 42,000 motor vehicles and 470,000 persons travel between Guangdong and Hong Kong and Macao every day. The establishment of the Closer Economic Partnership Arrangement (CEPA) in June of 2003 strengthened even more the opportunities for cooperation between Guangdong and the Hong Kong and Macao SARs.[1] The aim of this cooperation, in the words of Guangdong party secretary Zhang Dejiang, was to turn Guangdong into a world manufacturing base, Hong Kong into an international financial and logistics center and Macao into a regional service platform and tourist center.[2] In July 2003 the Guangdong leadership raised the idea of creating further synergies and development possibilities in the region by forming a so-called Pan-Pearl River Delta Economic Sphere. It involved closer cooperation between nine southern provinces and the Special Administrative Regions (SARs) of Hong Kong and Macau ("9+2"). The nine provinces were Sichuan, Hunan, Jiangxi, Yunnan, Guizhou, Guangxi, Fujian, Guangdong and Hainan. The objective was to turn the region into a new economic growth pole centered on Guangdong and Hong Kong.

In May 2004, the state council approved the plan and in June top leaders from the participating provinces and Special Administrative Regions met in Guangdong, Hong Kong and Macao to put their seal to the PPRD Regional Cooperation Framework Agreement.

Pan-Pearl River Delta regional cooperation and development

The PPRD region constitutes an area equivalent to one-fifth of China's territory and more than one-third of the population. When the idea to

Table 9.1 Pan-Pearl River Delta economic indicators, 2003

Country	*Area 1,000 km²*	*Population million*	*GDP RMB billion*	*Exports USD billion*	*Utilized FDI USD billion*
Fujian	121.40	34.88	524.17	21.10	4.99
Guangdong	179.80	79.54	1,344.99	152.94	15.58
Guangxi	236.70	48.57	273.32	1.97	0.46
Guizhou	176.10	38.70	134.43	0.59	0.06
Hainan	33.90	8.11	69.83	0.87	0.58
Hunan	211.80	66.63	463.37	2.15	1.49
Jiangxi	166.90	42.54	283.00	1.51	1.61
Sichuan	485.00	87.00	545.63	3.21	0.58
Yunnan	394.00	43.76	245.88	1.68	0.17
Subtotal	2,005.60	449.72	3,884.62	186.02	25.52
Hong Kong	1.10	6.80	1,309.90	223.40	9.68
Macau	0.03	0.45	65.30	2.60	3.29
Whole Pan-PRD	2,006.73	456.98	5,259.82	311.30	38.49
% of China[1]	20.90	34.80	33.29	42.43	47.69
China	9,598.00	1,299.50	13,044.60	563.68	66.48
% of China[2]	20.91	35.17	40.32	31.95	57.90

Source: Yue-man Yueng, “Emergence of the Pan-Pearl River Delta,” *Geografiska Annaler* 87 B (1): 75–79, at p. 76.

Notes:

1. Hong Kong and Macao not included.
2. Hong Kong and Macao included.

create the 9+2 economic sphere first was raised, the nine mainland provinces accounted for 33 percent of China’s GDP and 48 percent of utilized foreign direct investment (see Table 9.1). If Hong Kong and Macao are included the figures were 40 percent of China’s GDP and 58 percent of its foreign direct investment. The total population of the region was 454 million, equal to that of the EU. In 2006, the combined economy of the nine provinces grew by 13.3 percent, 2.6 percent above the national average. The economies of Hong Kong and Macao grew by 6.5 percent and 16.6 percent, respectively.

The plan to create a PPRD Economic Sphere was first put forward by Guangdong’s powerful party secretary Zhang Dejiang. It was conceived of as a regional framework that could achieve several objectives.[3] It has the potential of extending the hinterland of Guangdong’s Pearl River Delta that lately has seen rises in land and labour costs and other signs of development bottle-necks. As Hong Kong has shifted most of its manufacturing to the Pearl River Delta, the future growth of Hong Kong’s economy is also dependent on access to cheap labour and land resources. The poorer members of the bloc hope to benefit economically from cooperating more closely with advanced provinces and economies such as Fujian and Guangdong and Hong Kong. All participants see the grouping as a chance to increase their competitiveness vis-à-vis the Yangtze River Delta economic powerhouse.

The plan to form a PPRD bloc immediately received the support of the central government, which sees the new regional framework as an example of how it is possible to bolster economic development in the Chinese hinterland by linking the interior more closely to the more advanced coastal provinces. In 1999, China promulgated its Western Region Development strategy in order to promote economic development in its development-lagging 12 Western provinces. As four of the PPRD provinces, namely Guangxi, Yunnan, Guizhou and Sichuan are also among these 12 Western provinces, the PPRD plan was perceived to be in line with the intentions behind developing the western region through increased investment and through linkages to the coastal provinces.[4]

The PPRD initiative also aimed to establish a link to the ASEAN countries in order to facilitate China–ASEAN economic cooperation and integration. On November 29, 2004, China and ASEAN signed the "Framework Agreement on Comprehensive Economic Cooperation Between the Association of South East Asian Nations and The People's Republic of China." The agreement provides for the establishment of a free trade area by 2010.[5] The PPRD region is geographically well-positioned to benefit from this agreement. Already there is increase in trade and ASEAN investment in China.[6] Increased trade necessitates better infrastructure and therefore plans have been developed to turn Guangxi into the transport hub of the China–ASEAN free trade zone. Cooperation also includes the establishment of a permanent China–ASEAN exhibition in Nanning and PPRD participation in the Greater Mekong sub-region collaboration mechanism.

The PPRD framework

The PPRD Regional Cooperation and Framework Agreement signed on June 2, 2004 outlined five principles of cooperation.[7] The gist of these principles were that participation in the PPRD regional cooperation was voluntary and that cooperation would be market-oriented. Moreover, regional cooperation would be built on open and fair policies and discriminative measures and regional blockades would be eliminated. Finally, members of the bloc would work to complement each other, and all sides would work to bring about common benefits.

The framework agreement also outlined ten spheres of cooperation that the new PPRD bloc intended to develop. The list began with initiatives in the area of infrastructure facilities such as the development of energy construction projects and the construction of a large comprehensive transportation network in the PPRD region, including interprovincial highways and railways as well as more air routes.

A second area of cooperation was within industry and investment, where the aim was to improve regional industrial standards and to develop a rational industrial structure. A third related sphere was to eliminate barriers restricting commodity circulation in order to build an efficient and standardized market order in the region and to encourage regional trade cooperation and development activities. Measures included introducing standardized industrial and agricultural quality control and certification in the region.

Tourism was the fourth area of cooperation listed in the framework agreement. The goal was to formulate a regional tourism development strategy. Concrete measures included establishing a regional tourism information database, a regional tourism sales network system and a regional tourism E-business service platform.

According to the framework agreement the fifth major focus area for the PPRD cooperation was agriculture. This entailed, among other things, establishing a stable sales and purchase network for grain and other agricultural products. It also included measures to promote the integration of leading agricultural enterprises in the region as well as the establishment of a foodstuffs quality control system.

The sixth major initiative to be taken by the PPRD-bloc was to intensify cooperation in human resources development and to promote a rational standardized flow of labour in the region. This included a system of exchanging labour force information and improving vocational training and education. Related to this was a seventh major area of cooperation within science, education and culture. The aim was to enhance cultural and human resource exchanges in the region by strengthening cooperation among institutions of higher learning. It was also agreed to establish a system of regional science and technology innovation.

Concerning the eighth major initiative, the participants promised to undertake the establishment of a regional information exchange system. It involved formulating E-commerce rules and regulations and establishing a regional information exchange mechanism in order to share resources and to enhance information technology research.

The ninth area of cooperation concerned environmental protection. All sides agreed to enhance cooperation in protection of water, ecology, and air. This involved formulating a regional environmental protection plan in order to improve the overall environmental quality of the region and its capacity for sustainable development. Finally as the tenth area of cooperation, all sides agreed to establish an epidemic prevention mechanism in order to coordinate work on epidemic prevention as well as treatment research.

The framework agreement also sketched the model or mechanism for cooperation within the PPRD. The planned annual Pan-Pearl River Delta Regional Cooperation and Development Forum was supposed to be an important platform for regional cooperation. In connection with the anuual meeting of this forum, the regional leaders' joint conference would be held. The forum was also supposed to be responsible for organizing the annual PPRD Economic and Trade Fair. Other administrative measures included establishing an administrative coordination mechanism to facilitate cooperation within the 9+2 framework. This included setting up a government secretary-general coordination system to draw up cooperation and development plans and work out reports and suggestions to the annual regional leaders' joint conference. It was also decided to organize a system to facilitate contact and communication between provincial government departments at corresponding levels. Finally, the main objective was to create a network of cooperation and development agreements.[8]

Milestones of PPRD regional cooperation

Table 9.2 lists the most important events and developments in the Pan Pearl River cooperation and development process during the period from the first PPRD Regional Cooperation and Development Forum and the signing of the PPRD Regional Cooperation Framework Agreement on June 3, 2004 to the conclusion of the Fourth PPRD Forum in the summer of 2007. It is of particular importance to note the extraordinary number of cooperation and collaborative agreements that have been signed between the governments and government departments of the provinces making up the PPRD Region during this period. These agreements and administrative guidelines include customs administration, commercial affairs, industrial development, consumer protection, price supervision, intellectual property rights, infrastructure, etc. A closer look at the year 2005 illustrates the process taking place. The first agreement of the year was an "Agreement on Environmental Protection in the Pan-PRD Region." The following month an internal PPRD system of coordinating the work of the customs departments in the various provinces was also signed. In May 2005, several agreements were signed including an "Agreement on Regional Agricultural Cooperation." In June and July four agreements were negotiated including a "Framework Agreement on Information Hub Cooperation in the Pan-PRD Region," a "Cooperation Agreement on Regional Anti-Smuggling in the Pan-PRD Region," and a "Memorandum of Regional Estate Cooperation in the Pan-PRD Region." In July 2005, the customs authorities in the Pan-PRD Region launched the new "Cross Region Customs Declaration and Airport Clearance Inspection" scheme.

In July 2005, The Second Pan-PRD Regional Cooperation and Development Forum was held in Chengdu, Sichuan. Similar to the founding forum in June 2003 the theme was "prosperity through partnership." There were discussions on IPR protection and how to promote the regions's economic expansion. Moreover, an "Agreement on Modern Logistical Development in the Pan-Pearl River Region" was signed with the aim of creating an integrated, effective and modern flow of commodities. Leading officials also signed the "Memorandum of Pan-PRD Chief Executive Joint Conference." The first of these joint conferences was held in Chengdu, where it was decided to establish a secretariat that would be responsible for implementing regional cooperation resolutions. The website of the Pan-PRD cooperation organization was also formally launched with a view to disseminating information on cooperation and development in the region.[9]

Table 9.2 Cooperation milestones in the PPRD region

Date	*Event*
July 2003	Guangdong Provincial Government first proposed the idea of the Pan-Pearl River Delta Regional Cooperation.
August 8–9, 2003	Directors of the planning commissions of the nine relevant mainland provinces met in Guangzhou to discuss basic ideas, development goals and measures for regional cooperation.
November 3, 2003	Guangdong party secretary Zhang Dejiang promoted the concept of the "Pan-Pearl River Delta Economic Development Zone" at the International Consultative Conference on the Future Economic Development of Guangdong.
May 2004	The State Council approved the PPRD cooperation scheme.
June 1–3, 2004	The first Pan-PRD Regional Cooperation and Development Forum was held in Hong Kong, Macao and Guangzhou. The theme of the forum was "Prosperity Through Partnership."
June 3, 2004	Pan-PRD Regional Cooperation Framework Agreement signed.
July 14–17, 2004	The first Pan-PRD Regional Economic and Trade Cooperation took place in Guangzhou. 847 projects were signed, worth 292.2 billion yuan.
Fall 2004	17 agreements were signed, including agreements on foreign economic and trade cooperation, industrial and commercial cooperation, TV and media cooperation, environmental protection, food and pharmacy surveillance, regional intellectual property, etc.
Spring and summer 2005	Ten agreements, guidelines and memoranda were signed covering areas such as environmental protection, labour services, agricultural cooperation, anti-smuggling, real estate, digitalisation, technological cooperation, etc.
July 25, 2005	The Second Pan-PRD Regional Cooperation and Development Forum held in Chengdu, Sichuan. Theme of the forum: Prosperity Through Partnership. Top officials signed the "Memorandum of Pan-PPRD Chief Executive Joint Conference." The first Pan-PRD Chief Executive Joint Conference was held in Chengdu, where it was decided to establish a secretariat. The website of the Pan-PRD cooperation was launched (www.prd.org.cn).
July 26–28, 2005	The Second Pan-PRD Regional Economic and Trade Fair was held in Chengdu. The fair resulted in the signing of 4,473 projects, worth RMB 453.5 billion.
Fall 2005	Nine agreements and guidelines were signed and adopted on issues such as digitalisation cooperation, utilities cooperation, integrated transportation systems, technical surveillance, etc.

Table 9.2 (*cont'd*)

Date	*Event*
December 18, 2005	Construction began on three Guangdong railway lines facilitating transportation across the Pan-PRD region.
Spring 2006	Five sets of guidelines adopted and circulated concerning regional cooperation and development, transportation, environmental protection, technological innovation, etc.
June 5, 2006	The Third Pan-PRD Regional Cooperation and Development Forum took place in Qujing, Yunnan.
Summer 2006	Two sets of guidelines on a general transportation system in the Pan-PRD region and cooperation on regional energy resources were promulgated.
Fall 2006	Four cooperation agreements signed concerning development of tourism and production security.
May 10, 2007	The Pan-PRD Business and Trade Customs Integration Forum was held in Hong Kong resulting in the signing of eight projects regarding cooperation on issues such as opening ports, intellectual property protection, smuggling, custom employee training.
June 6–10, 2007	The Fourth Pan-PRD Regional Cooperation and Development Forum was held in Changsha, Hunan. 1,254 cooperation projects were signed among 9+2 regional parties, worth RMB 337.6 billion. 40,000 people attended the conference including representatives from European Union and the ASEAN countries.

Notes: Deng Lishu, "2005 nian zhusanjiao ji fan zhusanjiao quyu fazhan da shiji" (Chronicle on the development of the Pearl River Delta and Pan-Pearl River Delta Areas in 2005), in Jing Tihua (ed.), Zhongguo quyu fazhan lanpishu 2005–2006 nian: Zhongguo quyu jingji fazhan baogao (Blue Book of China's regional development: the development report of China's Regional Economy, 2005–2006) (Beijing: Shehui kexue wenjian chubanshe, 2006); Central Policy Unit, Hong Kong Special Administrative Unit, "Consultancy Study on Social, Economic and Political Developments in Pan-Pearl River Delta Region" (June 2006) (www.cpu.gov.hk/english/documents/new/press/2006pan-prd01B.pdf); www.pprd.org.cn.

Following the successful conclusion of the Cooperation and Development Forum the Second Pan-PRD Regional Economic and Trade Cooperation Fair was held in Chengdu. The fair was attended by 7,000 people including entrepreneurs and government officials and resulted in the signing of 4,473 projects, representing an investment of 453.5 billion *yuan* (see Table 9.2).

During the fall of 2005 new initiatives were taken such as the issuance of "Guidelines for Technological Cooperation," and "Guidelines for Utilities Cooperation." In November Guangzhou hosted a meeting on the development of tourism with representatives from 30 cities in the PPRD participating. They discussed cooperation on tourism, protection of tourism resources and products and how to integrate tourist information and communication. In December, construction began on three Guangdong railway lines. This showed Guangdong's determination to develop its inter-provincial railway system, which would benefit transportation and economic development across the PPRD Region.

The momentum was kept up in the beginning of 2006. At a national level the focus of economic planning was on the new Five-Year Programme for National Economic and Social Development, which was adopted at the Fifth Plenum of the Sixteenth Chinese Communist Party Central Committee in October 2005 and approved at the annual meeting of the National People's Congress in March 2006.[10]

The Five-Year Programme contains an important section on "Promoting co-ordinated regional development." A key objective of regional development, according to the formulations in this section, is to promote regional co-ordination and interaction. This should be done by strengthening market mechanisms, breaking free of the restrictions of administrative divisions, and promoting the free flow of production factors across regional lines. Moreover, the mechanisms and avenues of cooperation should be strengthened, and regions should be permitted to implement diverse forms of regional economic collaboration as well as technological and personnel cooperation.

The Eleventh Five-Year Programme mentioned that the Pearl River Delta along with the Yangtze River Delta, and the Bohai Rim Area should continue to perform their functions of stimulating and influencing economic development in the hinterlands. It was also mentioned that the Special Economic Zones, the Shanghai Pudong New Area, and the Tianjin Binhai New Area should continue to receive special attention. However, there was no mention of The Pan-Pearl River Delta Regional Cooperation initiative in the Five-Year Programme. This is noteworthy as the initiative in reality answers the five-year plan's call to initiate cooperation between western and central and eastern provinces. In the PPRD scheme there are four western (Sichuan, Yunnan, Guangxi, Guizhou), two central (Hunan, Jiangxi) and three eastern provinces (Fujian, Guangdong and Hainan). With such a combination of provinces from various diverse parts of China, one would have thought that the PPRD cooperation initiative would have received greater attention in national policy circles in Beijing. In fact, Liu Jiang, the vice minister of the powerful State Development and Reform Commission (SDRC), had said in 2004 that when "drawing the Eleventh Five-Year Plan for National Economic and Social Development, SDRC will attach key importance to regional planning, making clear the focuses and objectives of the strategy and structual adjustment. The state will give key support to regional cooperation in the PPRD."[11] Somewhere in the process Liu Jiang and the SDRC backtracked on this commitment.

In April 2006, Kunming hosted a meeting organized by the Office of the Pan-PRD Cooperation Forum. The meeting discussed progress made towards arranging the Third Pan-PRD Regional Cooperation and Development Forum, the structure of the Forum and member support. In June the

Third Pan-PRD Regional Cooperation and Development Forum was held in Qujing in Yunnan Province.

Since then the momentum and ambitions have slowed down considerably. Several reasons for this can be given, but the most important seems to be lack of support from Beijing. The central government has traditionally been wary of supporting regional alliances within the country to prevent local power bases from threatening national unity. Moreover, the various provinces in the PPRD organization have their own interests and are often hesitant to become too dependent on neighbouring provinces, which traditionally they have viewed as competitors. However, in the Spring of 2007 cooperation seemed to have picked up new momentum, and in June 2007 a successful Fourth PPRD Regional Forum was held.[12]

The ASEAN link

As mentioned above, the PPRD should not be viewed only as an internal regional framework within China. It is also an initiative that aims to build bridges to Southeast Asia and beyond. Thus the PPRD bloc aims to engage in closer cooperation with the ASEAN countries. The 10+1 Free Trade Pact between China and ASEAN provides a window of opportunity that the provinces of Yunnan and Guangxi, in particular, are well positioned to exploit. The two provinces share borders with three ASEAN members – Vietnam, Laos and Myanmar.

Table 9.3 lists the most important traded products between the nine Pan Pearl River Delta provinces and the ASEAN countries. In general the export of the PPRD provinces to the ASEAN market consists of mechanical and technical products, traditional textiles and clothes, shoes, agricultural/farming products and imports of mechanical and electrical products, refined oil, plastic material, timber, paper board and other products made from raw materials, plant oil and other agricultural products. Guangdong's foreign trade with the ASEAN countries fits very well with this pattern. Thus exports mainly consist of mechanical and electrical products, high-tech products, vegetables, fruit, marine products, whereas imports include plant oil, rice, fruit, natural rubber, paper and paper board, refined oil, and ore/mineral in sand form. Compared to Guangdong and the overall PPRD picture, Hainan is somewhat atypical in the composition of export and import. Exports to the ASEAN countries consist mainly of carbamide fertilizer, silicon manganese iron, cloth and cloth accessories, mechanical and electrical products, and imports consist of liquefied butane gas, steel construction products, animal and plant oil, anthracite (black, hard coal). Thus high-tech products and textiles and clothes are not among the most important export products to the ASEAN countries and fruit and agricultural products do not figure prominently among the import items of the island from these countries.

The only ASEAN country that figures on the list of Hainan's top ten export markets is Malaysia with a share of 1.6 percent of the total value of

Table 9.3 The most important traded products between the nine Pan-Pearl River Delta provinces and the ASEAN countries

Province	*Imported Products from ASEAN*	*Exported Products to ASEAN*
Guangdong	Plant oil, rice, fruit, natural rubber, paper and paper board, refined oil, ore/mineral in sand form	Mechanical and electrical products, hi-tech products, vegetables, fruit, aquatic products
Guangxi	Rubber, coal, starch, fruit, ore/mineral in sand form, palm oil, raw wood	Mechanical and electrical products, hi-tech products, Chinese herbal medicine, chemical fertilizer, steel, textile
Guizhou	Raw natural rubber (smoked sheets), natural rubber latex	Flue-cured tobacco, apatite
Yunnan	Metals mining, timber, agricultural and side-line products, marine products	Yellow phosphorus, flue-cured tobacco, non-ferrous metal, chemical fertilizer, daily products
Sichuan	Fruit	Mechanical and electrical products, textile, chemical products, seeds, agricultural machines
Hunan	Chemical products, iron and steel products, non-ferrous metal, garments, different kinds of mechanical utensils (diesel motors, electrical motors/generators, handicraft utensils), fireworks, shoes, tobacco etc., coloured tubes, cars and motor	Palm oil, coconut oil, wood pulp, niobium tantalum barium minerals, chemical raw materials (terephthalic acid, hydrocarbon without chain), integrated circuits, automatic data processing equipment, coloured tubes with glass covering, cold steel rolled out in plates spare parts, lighters
Jiangxi	NA	NA
Fujian	NA	Clothes, suitcases and bags, shoes, fruit, vegetables, monitors, coloured display tubes, vehicles and spare parts, ships and boats, food products, processed animal and plant products
Hainan	Liquefied butane gas, steel construction products, animal and plant oil, anthracite (black, hard coal)	Carbamide fertilizer, silicon manganese iron, cloth and cloth accessories, mechanical and electrical products
9 PPRD Regions	Mechanical and electrical products, refined oil, plastic material, timber, paper board and other products made from raw materials, plant oil and other agricultural products	Mechanical and technical products, traditional textile and cloths, shoes, agricultural products

Source: Jing Tihua (ed.), *Zhongguo quyu fazhan lanpishu 2005–2006 nian: Zhongguo quyu jingji fazhan baogao* (Blue Book of China's regional development: the development report of China's Regional Economy, 2005–2006) (Beijing: Shehui kexue wenjian chubanshe, 2006), p. 286.

Hainan's total export (see Table 5.12). Extending the list to include Hainan's 20 most important export markets, two more ASEAN countries appear, namely Singapore and Thailand with shares of 1.07 percent and 0.95 percent, respectively.[13] In fact, the ASEAN countries only account for about 5 percent of Hainan's total export. Compared to the mid-1990s trade with the ASEAN countries has stagnated rather than expanded. The picture is different in terms of trade with a number of Western countries. Thus Hainan's export to the US, the UK, Germany and France has expanded significantly during recent years and now accounts for 19.6 percent of total export.

In terms of import the picture is somewhat different, as three ASEAN countries appear among Hainan's top ten import countries, namely, Vietnam, Singapore and Thailand. They now account for 8.4 percent of Hainan's import, up from 4.1 percent in 2003. However, also on the import side, trade with the Western countries has increased in relative importance. Thus Hainan's import from the US accounts for more than a quarter of total import (26.4 percent) and import from Germany for 8.9 percent.[14] In sum, Hainan's economic interaction with the ASEAN bloc is limited. Relations with Hong Kong and Japan are still important but expansion mostly takes place in relation to a number of Western countries, notably the US.

Different aims

The aims of the provinces participating in the PPRD economic cooperation and development organization are not necessarily the same. For wealthier regions such as Guangdong and Fujian the main motivation seem to be the PPRD bloc's potential to maintain manufacturing competitiveness. This has especially been a concern among Guangdong officials who believe that the Pearl River Delta's position as China's most important manufacturing hub is being eroded by Shanghai and the Yangtze River Delta Region. This concern is to a certain extent shared by Hong Kong, which has moved most of its manufacturing capacity to the Pearl River Delta. There is also growing competition concerning labour power and the emerging PPRD bloc will facilitate Guangdong's access to cheap labour from poorer provinces such as Guangxi, Guizhou, Yunnan, Hunan, Jiangxi and Sichuan and thereby strengthen Guangdong's economic status vis-à-vis its northern competitors. The poorer provinces hope to benefit economically by linking up with the more affluent coastal provinces and Hong Kong. To Hainan it is question of attracting investment and capital and trying to link up with more dynamic regions and economies.

In his recent book, Kenichi Ohmae writes that one potential region to watch is the province of Hainan.[15] He mentions that Hainan has abundant natural wealth and is well placed to benefit from the exploitation of oil and gas reserves in the South China Sea. But in spite of Hainan's proximity to Guangzhou and the Pearl River Delta the island has not experienced the same hypergrowth, so the Hainan leaders feel left out. The days when Hainan, as a reform-oriented economic and political unit, could profit from going it alone are gone. The island can no longer hope to create a vibrant SEZ such as Shenzhen and has therefore chosen a closer cooperation with its more dynamic neighbors. This has not happened without problems. Many people on Hainan are anxious not to get too close to Guangdong, as they are eager to maintain the independence from Guangdong that the island achieved in 1988.

10 Hainan and the South China Sea

According to the decision to establish Hainan Province, adopted by the 7th NPC on April 13, 1988, the province of Hainan's geographical boundary includes the *Xisha* (Paracels) and *Nansha* (Spratley) Island groups and their surrounding water areas. These water areas are 60 times the land area of Hainan proper and would, if included, turn Hainan into China's biggest province in terms of area.

There are more than a hundred islands in the South China Sea, mainly in the form of uninhabited islets, shoals, reefs, and banks. The islands are composed of four groups: The Pratas Island (*Dongsha Qundao*), the Paracel Islands (*Xisha Qundao*), the Macclesfield Bank (*Zhongsha Qundao*) and the Spratley Islands (*Nansha Qundao*).[1]

There are important interests at stake.[2] The South China Sea is home to some of the most important fishing grounds in Asia and is a vital food resource for the population in the region. Annual catches in the Spratleys alone are estimated at between 2 and 2.5 million tons with an estimated value of about US$ 3 billion.[3] The area is also believed to contain huge reservoirs of oil and gas under the seabed. Especially for China, which has turned into the world's second largest importer of oil, access to energy resources has become a crucial issue. Chinese officials estimate the oil reserves at US$ one trillion.[4] The area also has a military and strategic importance. This was especially the case during the Vietnam War. Currently, the military significance is related to the fact that important sea transportation routes go through the area. An estimated 70–80 percent of Japan's, Korea's and Taiwan's oil and raw material resources pass through the area. Therefore, there are strong strategic concerns not only on the part of the countries directly involved, but also in Japan and Korea and ultimately in the US.

China's claim

To China history and tradition also seem to play a major role. Thus, the Chinese position is not based on international legal texts but rather on reference to history and tradition. There is a considerable Chinese scholarship demonstrating that China exercised dominion and control over the

South China Sea as early as the Han dynasty and made expeditions to the Spratleys as early as the Spring and Autumn period.[5] These scholars argue that China has a historic right to the South China Sea since the area belonged to China in the past and since China has never renounced its sovereignty.

In the 1930s, the Nationalist Government began to publish maps that showed a maritime boundary line which indicated that the South China Sea belonged to China.[6] On December 1947, the Ministry of Interior renamed the islands in the South China Sea and formally brought them under the administration of the Hainan Special District. In February 1948, the *Atlas of Administrative Areas of the Republic of China* was published. It showed an 11-segment line that encircled the South China Sea to indicate that is was under Chinese jurisdiction. The line ran southwards offshore of the Vietnamese coast down to about latitude 4°N, then ran north-eastwards to the the west side of the island of Luzon in the Philippines and further north along the east side of Taiwan. The People's Republic of China inherited this perception of Chinese sovereignty over the South China Sea and during the 1950s and 1960s published maps similar to those published before 1949.[7] The only minor modification was that the line had nine segments rather than eleven. Since then, Chinese officials maps have displayed the famous U-shaped nine-dotted line around the South China Sea.[8] The nine dots are placed so as to encompass all of the South China Sea as if it were land (see Figure 10.1, map of South China Sea).[9]

However, international law does not allow states to regard huge sea areas in the same way as land. In order to be able to do this, the sea must be defined as a country's "historic bay." The South China Sea does not satisfy this condition. Moreover, the islands in the South China Sea are too small to sustain a right to a continental shelf or an economic zone. According to the United Nations Convention on the Law of the Sea (UNCLOS), in order to meet the definition of island, an insular feature needs to be above water at high tide.[10] UNCLOS also stipulates that small islands which cannot sustain human habitation or economic life on their own cannot have an exclusive economic or continental shelf.[11] So, even if China could claim all the islands and reefs it wouldn't necessarily include the huge sea area. Nevertheless, in February 1992 China enacted its Law on the Territorial Sea and the Contiguous Zone. The law provided that the territorial land of China "includes . . . the Dongsha Islands, the Xisha Islands, the Nansha Islands and other islands that belong to the People's Republic of China."[12]

However, China's claim to the South China Sea is strongly contested by its neighbours in the region. China, Taiwan, and Vietnam all lay claim to sovereignty over the Paracel Islands. They also claim soveignty over the many islets and reefs in the huge Spratley area. In addition, Malaysia and the Philippines claim various groups of islands in the Spratleys and the Sultanate of Brunei also has a minor claim.[13] Finally, Indonesia has become involved due to its possession of the oil and gas rich Natuna Islands, which

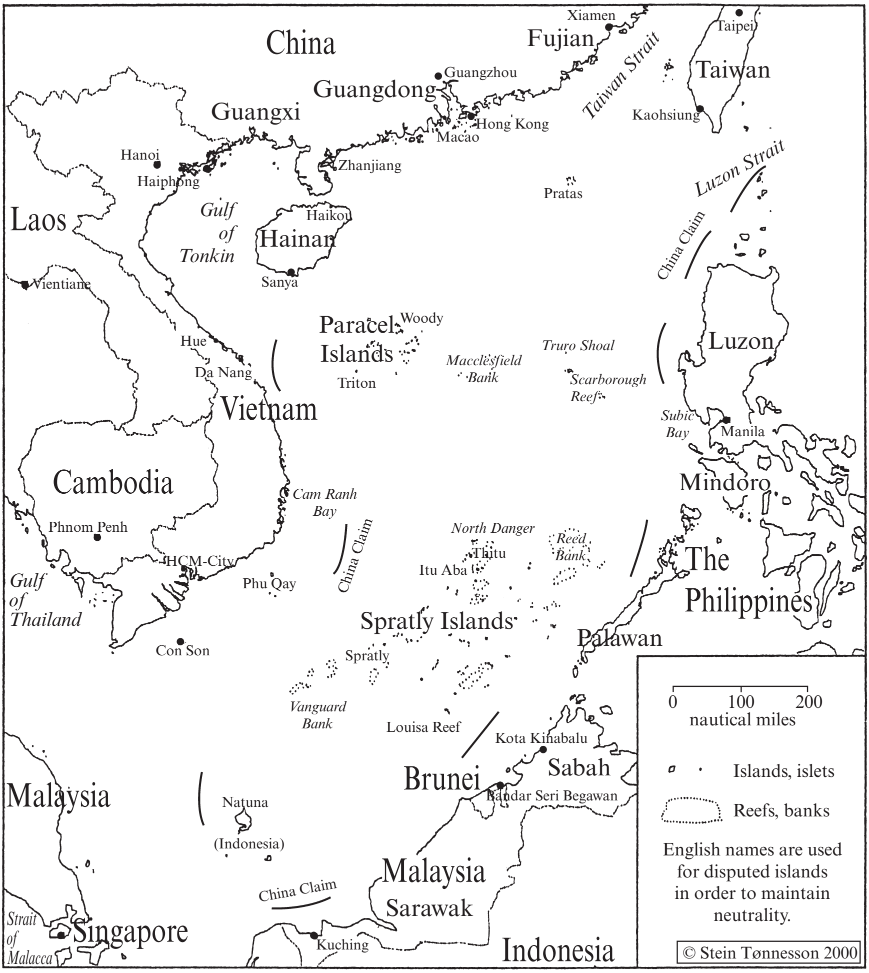
China
Fujian
Xiamen
Taipei
Taiwan
Taiwan Strait
Guangzhou
Guangdong
Guangxi
Hong Kong
Macao
Kaohsiung
Hanoi
Haiphong
Zhanjiang
Luzon Strait
Pratas
Laos
Gulf of Tonkin
Haikou
Hainan
China Claim
Vientiane
Sanya
Paracel Islands
Woody
Hue
Da Nang
Triton
Macclesfield Bank
Truro Shoal
Scarborough Reef
Luzon
Vietnam
Subic Bay
Manila
Cambodia
Mindoro
Cam Ranh Bay
Phnom Penh
North Danger
Reed Bank
HCM-City
Thitu
China Claim
Itu Aba
The Philippines
Gulf of Thailand
Phu Qay
Spratly Islands
Palawan
Con Son
Spratly
Vanguard Bank
Louisa Reef
Kota Kinabalu
Sabah
Malaysia
Brunei
Bandar Seri Begawan
Natuna
(Indonesia)
Malaysia
China Claim
Sarawak
Strait of Malacca
Singapore
Kuching
Indonesia
0 100 200
nautical miles
Islands, islets
Reefs, banks
English names are used for disputed islands in order to maintain neutrality.
© Stein Tønnesson 2000

Figure 10.1 The South China Sea

may form part of the sometimes vaguely formulated Chinese claims. In the following pages we will focus on the Spratley Islands since they seem to form the focal point of contention. However, in relation to the Sino–Vietnamese dispute on the South China Sea, the Paracels are also important, although they are now under firm Chinese control.

Vietnam–China and the South China Sea dispute

The dispute between China and Vietnam on the possession of the Paracels and Spratleys has a long history. Whereas China's claims date from the Han dynasty, Vietnam's dates back to the seventeenth century.[14] The Vietnamese claim is reinforced by the fact that the French colonial rulers in Indochina had annexed the islands. As inheritors of the French possession, the Vietnamese therefore felt it natural to include the island groups among their sovereignty claims.

At stake are rich fishing grounds, potentially vast oil and gas reserves and geostrategic locations. The dispute became increasingly militant during the late 1970s and the 1980s, as speculation for oil increased and geostrategic considerations changed due to a declining US presence in Southeast Asia and an increasing Soviet influence in the region. After the reunification of Vietnam under Hanoi's leadership, the Soviet navy was allowed to use Cam Ranh Bay. This reinforced the Chinese perception of being encircled by the Soviet Union.

Already in 1956, shortly after the Geneva Conference, China seized some of the Paracel Islands.[15] The remaining islands, the Western Paracels, were seized in 1974 when Saigon was weakened following the American pullout.[16] The South Vietnamese retreated south to the Spratleys and stationed troops on at least five of the islands, while China increased its military and civilian presence in the Paracels.[17] In May 1977, the Socialist Republic of Vietnam claimed 12 nautical miles of territorial waters and a further 200 mile Exclusive Economic Zone which overlapped with the EEZ of China. The dispute between China and Vietnam picked up again in 1988. Chinese naval vessels sailed into the contested area in January 1988 and Chinese soldiers began building military structures on one of the largest islands. In March 1988 fighting broke out and China sank two Vietnamese ships killing 70 people.

China and Vietnam also disagree over their maritime boundary in the Gulf of Tonkin. The Gulf of Tonkin is an important fishing ground both to Chinese and Vietnamese fishermen. They used to travel unrestricted across the Gulf and Chinese fishermen would often live and work for long periods on the coast of Vietnam.[18] This changed when war broke out between China and Vietnam in 1978 and many Chinese fishermen were expelled. The problems were compounded by the exodus of more than 160,000 ethnic Chinese (*Hoa*) from Northern Vietnam.

The Gulf of Tonkin holds important hydrocarbon resources. Thus China's largest gas field, Yacheng, is located southwest of Hainan.[19] It is assumed that the Gulf primarily contains gas resources, but there are also some oil fields. Both China and Vietnam are interested in further oil and gas exploration in order to reduce their dependence on energy imports. China has on several occasions sent drill ships into what Vietnam perceives as its territorial waters, and in 1992 it signed a contract with the US firm Crestone to explore for oil in an area that Vietnam considered to be located on its continental shelf. In 1993, Chinese authorities prohibited all maritime activities in a rectangular area extending to within 20 nm of the Vietnamese coast in order to secure exploration activities.[20] Vietnam disregarded the Chinese act when in 1996 they gave concessions to a number of foreign oil companies. Beijing's response was to state that Vietnam's permission to allow foreign companies to conduct oil explorations in the sea area at Nansha Islands was "illegal and invalid" and constituted an encroachment on China's sovereignty.[21]

The constant conflicts over fishing and hydrocarbon resources have not only caused tensions in bilateral relations, but it has also prevented the two countries from fully exploiting the potentially valuable natural resources. International oil companies have hesitated to conduct the necessary comprehensive surveys of the actual resource potential that will show the actual size of oil and gas reserves.

Realizing the negative consequences of status quo, Vietnam and China initiated negotiations in 1992, and in December 2000 after 18 rounds of bilateral talks the two parties finally signed the Gulf of Tonkin agreements. The agreements included a maritime delimitation agreement for the Gulf and a Sino–Vietnamese fishery agreement.[22]

Gulf of Tonkin economic circle

In Hainan, plans of developing Yangpu as a subregional economic entrepôt were linked to plans establishing a so-called Gulf of Tonkin economic circle. The idea was supported by important policy planners in Beijing, including Ma Hong, the director of the Economic Research Center of the State Council. In Yangpu, a Gulf of Tonkin Research Center was set up which managed to put out an ambitious yearly report on the economic development of the region containing research articles as well as significant statistical material.[23] The reason for establishing the new economic cooperation circle was the belief that the Beibu Gulf area enjoyed an advantageous location, situated between East Asia and Southeast Asia and constituted an important maritime link.[24]

The Gulf of Tonkin Economic Circle never materialized. There are two main reasons for this. The Vietnamese authorities never took any serious interest in a project that clearly originated from within reform circles in Hainan. On the Chinese side, the proposal was linked to Hainan, especially the development of Yangpu; and once the Yangpu project was stranded, the proposal had no future. In addition, the tensions associated with diverging national interests in the Gulf also made it difficult to realize such an ambitious project.

Other clashes

From the clash in Spratleys in 1974 through the 1980s the dispute over the South China Sea had been perceived as a Sino-Vietnamese affair. This began to change in 1992 when China adopted its Law on the Territorial Sea and the Contiguous Zone. All of a sudden other countries in the region such as Malaysia and the Philippines became involved.[25]

In 1994–95 China clashed with the Philippines in the Kalayaan area. In the fall of 1994, the Philippine armed forces detained a number of Chinese fishermen and a few months later China retaliated by detaining Filipino fishermen. In February 1995 developments threatened to get out of control as the Philippines accused China of stationing armed vessels in Philippine territory and building structures on its Mischief Reef.[26] The Philippines had made their first claim in the Kalayaan area in 1975 and had been developing oil in the region since 1976. In the same year it set up a garrison on Palawan and in 1978 it established a military presence on seven of the islands. In 1979 the Philippine government stated that it only wanted control of the seven islands under its control and not the rest of the Spratley archipelago.

China and the Philippines eventually agreed on a code of conduct that rejected the use of force to settle their disagreements. However, in the meantime the Philippines had managed to secure the full support of its fellow members of ASEAN. The ASEAN countries agreed to push for the adoption of a code of conduct in the South China Sea that would include China.

The US has consistently tried to avoid getting entangled in the South China Sea dispute. In the wake of the Chinese occupation of the Paracel Island in January 1974 the US declared that the disputes were "for the claimants to settle among themselves."[27] In the 1980s, there was a concern with the Soviet presence in Cam Ranh Bay and how this gave the Russians an ability to prohibit access to the sealianes in the South China Sea, but this concern disappeared after the collapse of the Soviet Union in 1991. Basically, the US has maintained a non-committal position stating that it was a regional issue which had to be solved by the countries in the region. The main interest of the US is to maintain its freedom of navigation. The most important South China shipping routes pass well to the west of the Spratleys and east of the Paracels. The important Hong Kong–Singapore route comes no closer than 260 km to the Spratley Islands. If this is correct no territorial sea zone, including the Chinese, overlap current shipping lanes and therefore the US is unlikely to get involved.[28]

Code of Conduct in the South China Sea

Following the Chinese enactment of the Law of the Sea and the Contiguous Zone, the ASEAN Ministerial Meeting in July 1992 issued the so-called Manila Declaration on the South China Sea. In this declaration the ASEAN countries expressed the opinion that adverse developments in the South China Sea would directly affect peace and stability in the region. The declaration urged all concerned parties to exercise self-restraint in order to create a positive environment for resolution of the dispute and noted that the workshops on Managing Potential Conflicts in the South China Sea initiated by Indonesia had made a contribution to a better understanding of the issues involved.[29]

Originally China was reluctant to agree to the ASEAN initiative. China preferred bilateral negotiations to solve the issue rather than multilateral negotiations. The Chinese government argued that if a code of conduct was necessary it should be worked out through bilateral diplomatic channels similar to the way it had been done following the Mischief Reef incident.[30] However, gradually China began to change its position. This change in attitude was stimulated by the introduction in the mid-1990s of a dialogue and co-operation mechanism between China and the ASEAN.[31] In 1997, President Jiang Zemin and the ASEAN heads of state had their first informal meeting. Since then ASEAN leaders and their Chinese counterparts have met regularly under the auspices of the so-called ASEAN plus 1. Negotations on a Chinese–ASEAN Free Trade Agreement also had a contributory effect. According to this agreement China and the six original ASEAN member states – Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand – will form a free trade area by 2010. The less developed ASEAN countries – Cambodia, Laos, Myanmar, and Vietnam – will follow by 2015.

In 2002, China and all the ASEAN member states reached an agreement and on November 4 they, surprisingly, signed the Declaration of the Conduct of the Parties in the South China Sea in Phnom Penh, Cambodia.[32] The Declaration is based on the determination to consolidate the friendship and corporation between China and the ASEAN and to promote a friendly and harmonious environment in the South China Sea. The Declaration stressed that the parties would reaffirm their commitment to international law, in particular the 1982 UN Convention on the Law of the Sea. The parties declared they were committed to seek ways for confidence building and trust. They would ensure the freedom of navigation in, and flight over the South China Sea. They also promised to resolve their territorial and jurisdictional disputes by peaceful means. They stated that they intended to cooperate on the following: (a) marine environmental protection; (b) marine scientific research; (c) safety of navigation and communication at sea; (d) search and rescue operations; and (e) combating transnational crime, including illicit drugs, piracy and armed robbery at sea. The parties declared they would continue their dialogues and consultations on the South China Sea and refrain from any provocative action. They would undertake to exercise self-restraint and would refrain from complicating and escalating disputes that would affect peace and stability, including refraining from inhabiting the presently uninhabited islands, reefs, shoals, and other features.[33]

China's signature to this declaration can be regarded as a sign to show that China is willing to resolve the differences by peaceful means. Moreover, and this is a new element in China's posture, China declares its willingness to regard the dispute as a multilateral issue to be solved by multilateral means.

One may speculate as to the reasons for China's sudden change of policies in the South China Sea and its reasons for signing a declaration that turns the whole South China Sea dispute into a multilateral issue. China's change of heart seems to be the result of Beijing's current turn towards a more activist foreign policy stance. This turn has been made possible due to a growing confidence among Chinese leaders with international affairs and multilateral fora.[34] This is especially the case with regard to multilateral arrangements addressing economic matters such as WTO and APEC, or in cases where states emphasize adherence to the norms of non-interference, such as ASEAN and the Shanghai Cooperation Organization (SCO). There is no doubt that this growing confidence is also the result of an increasing professionalization and specialization of the cadres that manage foreign policy. In sum, China has – especially after September 11 – adopted a foreign policy of active internationalism. In relation to the ASEAN countries, China has realized that the South China Sea dispute is counterproductive and works against Chinese efforts to establish a free-trade area between China and ASEAN. Moreover, China has realized that it is in China's interest to keep the shipping lanes through the South China Sea open so that there will be no interruption of China's growing import of oil and raw materials.

Hainan spy plane incident

The US has kept a low profile in the South China Sea. However, in April 2001 an incident occurred which indicates that the US is constantly monitoring Chinese activities. On April 1 a US EP-3 reconnaissance aircraft was involved in a collision with a Chinese fighter plane in international airspace over the South China Sea in the vicinity of Hainan. The Chinese plane crashed whereas the US aircraft was able to land at Lingshui airport in the interior of Hainan. None of the American crew members were reported injured, but the Chinese fighter pilot apparently went down with his plane. On China Central TV the US aircraft was described as having "illegally" entered Chinese airspace and landed at Lingshui airport without permission. The Chinese Ambassador in Washington protested that by this act the US had "seriously violated" China's sovereignty. On April 3, President Jiang Zemin demanded that the US cease surveillance flights "in the airspace off China's coastal areas."[35] On the same day a Chinese foreign ministry spokesman outlined the Chinese grievances and made a series of demands, including an apology and an end to the US surveillance flights.

The US argued that the incident took place in international airspace in which US planes have the right to fly over. To this the Chinese answered that the incident took place over China's Exclusive Economic waters and the the EP-3 surveillance plane had violated the principle of "free overflight" by spying on China.[36] Thus, according to the Chinese, the US had violated the 1992 Law on the Territorial Sea and the Contiguous Zone as well as the UN Convention on the Law of the Sea from 1982.[37] It is noteworthy that the Chinese position established a logical connection between the legal foundation of its claims in the South China Sea and its protest over the US surveillance flights.

When the incident first became known, local officials in Hainan were handling affairs. On CNN and other international newsmedia, officials from the Hainan foreign affairs office would deliver strong criticism of the US behavior, but soon Beijing sent officials to Hainan to manage the crisis. Negotiations opened with the Americans on April 18 and at the end of the month the American crew members had returned to the US. Before this happened the US had officially apologized for the plane entering Chinese territory without prior authorization and had expressed sorrow for the loss of the missing Chinese pilot.[38] The Chinese press immediately translated the US "regret and sorries" using strong Chinese words for apology and admission of wrongdoing on the part of the US.

US officials indicated that the Chinese perhaps took advantage of the semantic ambiguities in translating "sorry" into Chinese. On May 7, US surveillance flights within 200 km of the Chinese coast were resumed demonstrating that the US would not bend on what Washington perceived to be the substance of the matter, namely whether or not American planes could operate freely over the South China Sea.

The incident highlighted the backwardness of China's military airforce. Most Chinese interceptors and transport planes are at least 20 years out of date.[39] China's indigenous fighters, the F-7 and F-8, have a maximum range of 2,200 km which is too short for any sort of mission in the Spratleys. The airforce of the neighbouring ASEAN nations can reach the Spratley Islands easily. The closest base on which to station military aircraft is Hainan, but even Hainan is 1,800 km away and this is too far away even for the relatively modern SU-27 and SU-29. China needs long range interceptors, aerial re-fuelling, transport planes and airborne early warning and guidance systems in order to have a serious military presence in the region.

With its minimal blue water capability China cannot effectively control the South China Sea or engage in sustained military operations as far south as the Spratleys. In Hainan, in particular in Yulin naval base in Sanya, China has stationed part of its southern fleet. But as far as is known none of the state of the art Sovremenny class destroyers and the Kilo class submarines, bought from Russia, are based there.

However, it is important to note that the incident indicates that Beijing reserves the right to keep US spy planes and ships out of its exclusive economic zone which extends 200 nm from its coast. This means that warships and military aircraft will have to ask China for permission for entry. Currently China cannot enforce such a regime, but the spyplane incident clearly indicates that when its military forces are strong enough, it may try to do so.

The incident also shows that the US will not accept such claims. It will continue to monitor Chinese military activites by sending surveillance aircraft on missions down the Chinese coast. Therefore everything points to the possibility of more incidents especially since Beijing still refuses to clarify what exactly it claims in the South China Sea.

Hainan's role in the South China Sea

Hainan has been used by the center in Beijng to enlarge its presence in the South China Sea. In 1955 a team of 90 personnel was sent by the Hainan Bird Fertilizer Company to erect housing structures on the island of Yongxing. In 1959, a county-level operational center was established on Yongxing and when Hainan became a province in 1988 it took over control of this center. In 1986, Secretary General Hu Yaobang became the highest-level Chinese leader to visit Chinese troops stationed in the Paracels. Since then it has become customary for Hainan officials to tour the Paracels before Chinese new year. Since 1992 these trip have been led by Hainan's governor.[40]

However in general Hainan's role has been limited. The South China Sea is purportedly under the jurisdiction of Hainan Province and its authorities have been empowered by Beijing to manage it. However, the various disputes have been handled by the foreign ministry or the party center in Beijing. Moreover, the Chinese navy is also under central control although the South China fleet is based in Zhanjiang in Guangdong Province. The navy and the military *xitong* it belongs to are often locked in a battle with the Ministry of Foreign Affairs over which actions to take in the South China Sea. Finally, Hainan has had only very limited influence on the exploitation of oil and gas resources in the region. The China National Offshore Oil Corporation (CNOOC), which is directly under the central authorities, monopolizes the right to explore and drill in China's maritime waters. CNOOC is based in Zhanjiang in Guangdong Province and from there it also runs its operation in waters technically under the authority of Hainan Province.[41] What this means is that Hainan has virtually no influence on CNOOC's operations around Hainan Island. Hainan only has a purely supportive role. In this sense CNOOC's operations are rather similar to the exploitation of Hainan's rubber and iron ore resources – they fall under the control of the central government. This creates irritation and tension. Hainan has more influence on marine fishing in the region. Marine fishing is part of the provincial government's oceanic development strategy. However, Hainan's role in managing the fishing resources in the South China Sea has been reduced by the frequent changes in government agencies at the provincial level. For example, in November 1998 the Hainan Oceanic Department (*ting*-level) was abolished.[42] This made it difficult for Hainan to communicate with the central government on marine and maritime resource management.

The Hainan spy incident also showed the limited manoeuvrability of the Hainan authorities. For the first two days, local officials took center stage, but thereafter Beijing took over. It is clear that, even though the South China Sea is administratively placed under Hainan Province, central ministries and organs including the various branches of the military, are constantly looming in the horizon and will often compete to exercise influence within overlapping areas of particular interest.

11 Conclusion

Hainan has seen remarkable changes since it was designated a new province and a special economic zone in 1988. In the beginning of the 1990s economic development surged and Hainan quickly reached a per capita GDP which was well above the national average. In fact, together with other coastal growth poles such as Guangdong and Fujian, Hainan was at the very cutting edge of China's economic transformation and opening to the outside world. In the 1990–94 period the economy grew by double digit growth rates and reached an astounding 40.2 percent in 1992. In 1993, contracted FDI had surged to US$ 4.19 billion, and the value of foreign trade had reached US$ 2.6 billion. The private sector was a driving force behind the economic expansion, and in Haikou City about a third of the urban workforce was employed in private businesses.

Hainan had also introduced a remarkable experiment in political reform under the slogan of "small government, big society." It involved a substantial cutback of government functions and, instead, an autonomous sphere consisting of self-governing associations and organizations was supposed to develop within the framework of a market economy. It is no exaggeration to claim that this was the most ambitious political reform program discussed in China since the *gengshen* reforms of 1980.

However, these economic developments were built on sand. Most investment went into the property development sector and other speculative activities. The ambitious Yangpu Economic Development Zone project, which was to form the core of preferential investment policies to attract foreign FDI, encountered political opposition from party conservatives in the Center. When the opposition had been overcome, attention had already shifted to Shanghai and Pudong New Zone, and Yangpu Economic Development Area never really took off. In general, the central government was reluctant to give up its control of Hainan's strategic resources and let the locals take over. Rubber production provides a good example. The island accounted for 60 percent of all rubber production in China, but produced only 5 percent of the national production of tires, one of the more important products of the rubber industry. In general, it was the center in Beijing that fixed prices of rubber and other essential raw materials and decided how much should be shipped to the mainland. Currently, exploitation of natural resources in the South China Sea, formally under the jurisdiction of Hainan, is also directed by the Beijing authorities who use Hainan as a platform for securing China's economic and political interests in the region.

When the bubble burst in 1994 it had immediate and serious consequences. The economic growth rate dipped to 4.3 percent in 1995 and has only recently recovered. Contracted FDI also plummeted and has not recovered since. In 2000, contractual FDI only amounted to 3.2 percent of the 1993 level. The value of foreign trade has also gone down and in 2000 was only half the 1993 size. Other economic indicators tell the same story: Hainan no longer belongs to the cutting edge of China's economic development and economic interaction with the outside world.

The "small government, big society" experiment also suffered from the economic downturn. Provincial and local bureaucracies on the island expanded in size and estimated as a percentage of total population, Hainan belonged to the category of provinces characterized by "big government" rather than "small government."

In the wake of the ambitious institutional reform program adopted by the Ninth NPC in the fall of 1998, the concept of "small government, big society" has received new attention, and Hainan again seems to be at the forefront of attempts to streamline and trim the state and party bureaucracies. However, as shown above, the displaced bureaucrats may return. In fact, the Hainan case illustrates the difficulties in sustaining administrative reform even in a province that is being showcased as a symbol of political reform. Moreover, what appears to be a part of a process towards a kind of civil society in the sense that powers and functions are "given back to society," is in fact often a reflection of pure administrative measures.

The Hainan case shows the vulnerability of local economic and political experiments. They need the support of the central authorities in Beijing to take off. The center wields considerable power through its control over important personnel decisions in the provinces. In spite of an almost total dismantling of the old centralized planning system, the center also maintains considerable influence by way of redistribution mechanisms between poor and rich provinces and by way of its control over a shrinking but still sizeable state sector. Moreover, local initiatives are often dependent on the policy considerations and general investment intentions formulated in the current five-year plan. Pudong New Area is a clear example of the opportunites provided by the present "governed" market system in China.

Notes

1 Introduction

1 China's Statistical Press publishes statistical yearbooks for provinces and major cities that carry data on GDP, industrial and agricultural output and sectoral distribution, population, health, education, foreign trade and FDI, etc., pertaining to individual provinces. Local presses also publish yearbooks with articles and statistical material. Of considerable use are the 50-year surveys of the various provinces that China's Statistical Press published in 1999.

2 David S.G. Goodman (ed.), *China's Provinces in Reform: Class, Community and Political Culture* (New York: Routledge, 1997); David S.G. Goodman and Gerald Segal (eds.), *China Deconstructs: Politics, Trade and Regionalism* (London and New York: Routledge, 1994); Hans Hendrische and Chongyi Feng (eds.), *The Political Economy of China's Provinces: Comparative and Competitive Advantage* (New York: Routledge, 1999); J. Fitzgerald (ed.), *Rethinking China's Provinces* (London and New York: Routledge, 2002); Shaun Breslin, *China in the 1980s: Center-Province Relations in a Reforming Socialist State* (London: Macmillan, 1996); Peter T.Y. Cheung, Jae Ho Chung, and Zhimin Lin (eds.), *Provincial Strategies of Economic Reform in China* (Armonk: NY: M.E. Sharpe, 1998); Jia Hao and Lin Zhimin (eds.), *Changing Central-Local Relations in China: Reform and State Capacity* (Boulder, Colorado: Westview Press, 1994); Yu-Ming Shaw (ed.), *Tendencies of Regionalism in Contemporary China* (Taipei: Institute of International Relations, 1997); Zheng Yongnian, "Institutional Economics and Central-Local Relations in China: Evolving Research," *China: An International Journal* 3(2) (September 2005): 240–269. As part of its project "China's Provinces in Reform" the Institute for International Studies at UTS has launched the research newsletter *Provincial China*, which carries research articles as well as sections on statistics and news of projects in progress. Books and edited volumes on individual provinces include Christopher Howe (ed.), *Shanghai: Revolution and Development in an Asia Metropolis* (Cambridge: Cambridge University Press, 1981); Brian Hook (ed.), *Guangdong: China's Promised Land* (Hong Kong: Oxford University Press, 1996); Y.M. Yeung and David K.Y. Chu (eds.), *Fujian: A Coastal City in Transition and Transformation* (Hong Kong: The Chinese University Press, 2000); Tung X. Bui, David C. Yang, Waye D. Jones and Joanna Z. Li (eds.), *China's Economic Powerhouse: Reform in Guangdong Province* (Houndmills, Basingstoke: Palgrave MacMillan, 2003); and Eduard B. Vermeer, *Economic Development in Provincial China: The Central Shaanxi Since 1930* (Cambridge: Cambridge University, 1988). Ezra Vogel's *One Step Ahead in China: Guangdong under Reform* (Cambridge, MA: Harvard University Press, 1989) offers the most comprehensive study of a Chinese province under reform.

3 There are a number of Western works on various aspects of Hainan's history, geography, and current political, social and economic developments. On the history and geography of the island, see Catherine Schurr Enderton, *Hainan Dao: Contemporary Environmental Management and Development on China's Treasure Island* (PhD, University of California, Los Angeles, 1984) and Edward H. Schafer, *Shore of Pearls* (Berkeley: University of California Press, 1969). On Hainan's development strategy, see Pierre Daignault, "Regional Development Strategy in the PRC: The Case of Hainan Island" (Thesis submitted to the Graduate School, Faculty of Sciences, The Chinese University of Hong Kong, 1992); Jörn-Carsten Gottwald, "Das Hainanprojekt und die Grenzen zentralstaatlicher Reformpolitik in der Volksrepublik China" (The Hainan project and the limits of the central state's reform policies in the Peoples Republic of China), *Asien*, Nr. 80 (Juli 2001): 64–80, and Feng Chongyi and David S.G. Goodman, *China's Hainan Province: Economic Development and Investment Environment* (Murdoch University, Asia Research Center, Asia Paper 5, 1995). On individual sectors, see Roderich Ptak, "Zur Entwicklung der Industrie auf Hainan 1980–1987: Ein Überblick" (On the development of Hainan's industry, 1980–1987: an overview) *Asien*, No. 1 (1990): 5–21 and Roderich Ptak, "Hainans Exportwirtschaft, 1978–1987" (Hainan's export economy; 1978–1987) *Internationales Asienforum*, Nr. 1990: 319–339. On the process of establishing the new province, see Kjeld Erik Brødsgaard, "Central-Regional Relations: The Case of Hainan," in Robert F. Ash, Richard L. Edmonds and Yu-ming Shaw (eds.), *Perspectives on Contemporary China in Transition* (Taipei: Institute of International Relations, 1997), pp. 26–57. On the content and reach of the reform experiment of "small government, big society," see Kjeld Erik Brødsgaard, "State and Society in Hainan: Liao Xun's Ideas on Little Government Big Society," in Kjeld Erik Brødsgaard and David Strand (eds.), *Reconstructing Twentieth-Century China: Social Control, Civil Society and National Identity* (Oxford: Clarendon Press, 1998), pp. 189–215. On cadre management at the sub-provincial level, see Kjeld Erik Brødsgaard, "Bianzhi and Cadre Management in China: The Case of Yangpu," in Kjeld Erik Brødsgaard and Zheng Yongnian (eds.), *The Chinese Communist Party in Reform* (London: Routledge, 2006), pp. 103–121. On teahouse culture and the question of civil society, see Feng Chongyi, "From Barroom to Teahouses: Commercial Nightlife in Hainan Since 1988," in Jing Wang (ed.), *Locating China: Space, Place and Popular Culture* (London: Routledge, 2005), pp. 133–149. Ezra Vogel's book on Guangdong Province under reform carries an important chapter on Hainan. See Vogel, *One Step Ahead in China*, pp. 275–309. The only book-length study on contemporary Hainan in a Western language is Jörn-Carsten Gottwald, *Regionalpolitik in der Chinesischen Provinz Hainan* (Regional policies in the Chinese Province Hainan) (Hamburg: Institut Für Asienkunde, 2002), which focuses on Hainan as an example of the regional policies of the Chinese government and the inherent contradictions between market liberalization and political control. Chinese studies include the works of Liao Xun, especially his *Xiao zhengfu da shehui – Hainan xin tizhi de lilun yu shijian* (Small government, big society – the theory and practice of Hainan's new system) (Hunan: San huan chubanshe, 1991) and a number of works on Hainan by research teams from the Chinese Academy of Social Sciences (CASS), in particular: Liu Guoguang (ed.), *Hainan jingji fazhan zhanlüe* (Hainan's economic development strategy) (Beijing: Jingji guanli chubanshe, 1988); Wang Ruolin (ed.), *Hainan jianli shehuizhuyi shichang jingji tizhi de shijian* (The practice of establishing a socialist market system in Hainan) (Beijing: Shehui kexue wenxian chubanshe, 1997); and Ru Xin (ed.), *"Xiao zhengfu da shehui" de lilun yu shijian: Hainan zhengzhi tizhi yu shehui tizhi gaige yanjiu* (Theory and practice of "small government, big society": research on the reform of Hainan's political and social system) (Beijing: Shehui kexue wenjian chubanshe, 1998).

4 Recently, the need for public sector reform in China has been related to the ideas of New Public Management (NPM). Privatization of government agencies and functions, opening up former government monopoly activities to private sector competition, contracting out services, devolving decision-making within organizations, decentralizing decision-making power to lower levels of government, etc., can all be regarded as aspects of this push for NPM. See Mark Turner, "Central-Local Relations: Themes and Issues," in Mark Turner (ed.), *Central-Local Relations in Asia Pacific* (Palgrave 1999), pp. 1–18.

5 On institutional and administrative reform in China, see Kjeld Erik Brødsgaard, "Institutional Reform and the Bianzhi System in China," *The China Quarterly*, No. 170 (June 2002): 361–386; Kjeld Erik Brødsgaard and Zheng Yongnian, *Bringing the Party Back In: How China is Governed* (Singapore: Eastern Universities Press, 2004); John P. Burns, "'Downsizing the Chinese State': Government Retrenchment in the 1990s," *The China Quarterly*, No. 175 (September 2003): 775–802.

6 See, for example, Kjeld Erik Brødsgaard and David Strand, *Reconstructing Twentieth-Century China: State Control, Civil Society, and National Identity* (Oxford: Clarendon Press, 1998); He Baogang, *The Democratic Implications of Civil Society in China* (New York: St Martin's Press, 1997); Tony Saich, "Negotiating the State: The Development of Social Organizations in China," *The China Quarterly*, No. 161 (March 2000): 124–141; Gordon White et al., *In Search of Civil Society* (Oxford: Clarendon Press, 1996); Timothy. Brook and B. Michael Frolic (eds.), *Civil Society in China* (Armonk, NY: M.E. Sharpe, 1997); and Qiusha Ma, *Non-Governmental Organizations in Contemporary China: Paving the Way to Civil Society?* (London: Routledge, 2006).

7 See Robert Dernberger, "The Chinese Search for Self-Sustained Development in the 1980s: An Assessment," in Joint Economic Committee, *China under the Four Modernizations, Part II* (Washington: Government Printing House, 1982), pp. 19–76; Kjeld Erik Brødsgaard, "Paradigmatic Change: Readjustment and Reform in the Chinese Economy, 1953–1981, Part 1," *Modern China* (9)1 (January 1983): 37–83.

8 See Nicholas Lardy, *Foreign Trade and Economic Reform in China, 1978–90* (New York: Cambridge University Press, 1992); Joseph Fewsmith, *Dilemmas of Reform in China: Political Conflict and Economic Debate* (Armonk, NY: M.E. Sharpe, 1994); George T. Crane, *The Political Economy of China's Special Economic Zones* (Armonk, NY: M.E. Sharpe, 1990).

9 See especially Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995).

10 See Barry Naughton and Dali L. Yang (eds.), *Holding China Together: Diversity and National Integration in the Post-Deng Era* (Cambridge: Cambridge University Press, 2004), pp. 1–5.

11 See, for example, Gordon G. Chang, *The Coming Collapse of China* (New York: Random House, 2001); Bruce Gilley, *China's Democratic Future: How It Will Happen and Where It Will Lead* (New York: Columbia University Press, 2004).

12 Goodman and Segal (eds.), *China Deconstructs: Politics, Trade and Regionalism.*

13 See Brødsgaard and Zheng (eds.), *Bringing the Party Back In: How China is Governed.*

2 "A place that God forgot"

1 For an earlier version of parts of this and the following chapter, see Brødsgaard "Central-Regional Relations in China: The Case of Hainan."

2 On Hainan's physical geography, see Enderton, *Hainan Dao: Contemporary Environmental Management and Development on China's Treasure Island*, p. 33; and Jin Qizhen, *Zhongguo yanhai jingji kaifangqu shinian gailan* (A ten-year survey of

China's coastal economic development zones) (Beijing: Kexue chubanshe, 1992), pp. 11–25.

3 Annual precipitation varies between 960 mm to 2,459 mm and the average temperature between 22.8–25.8°C. See *Hainan tongji nianjian 2006* (Hainan Statistical Yearbook) (Beijing: Zhongguo tongji chubanshe), p. 14.

4 Enderton, *Hainan Dao: Contemporary Environmental Management and Development on China's Treasure Island*, p. 65.

5 *Hainan tongji nianjian 2006*, pp. 51–53.

6 See Zhu Yue and Li Guangming (eds.), *Hainan kaifa zhinan* (Guide to the development of Hainan) (Changsha: Hunan kexue jishu chubanshe, 1988) pp. 349–351.

7 Hainan is still often referred to as Qiong. The name can be found in county names (e.g. Qiongshan, Qionghai and Qiongzhong) as well as in the name of the strait separating the island from mainland China (Qiongzhou).

8 See *The Travels of Mendes Pinto*, edited and translated by Rebecca D. Catz (Chicago and London: The University of Chicago Press, 1989), chapter 45.

9 Vogel, *One Step Ahead in China*, p. 276. For the history of Hainan, see Schafer, *Shore of Pearls* and The American Presbyterian Mission, *The Isle of Palms: Sketches of Hainan* (New York & London: Garland Publishing, 1980).

10 See Liao Xun, *Kaifang de chengben* (The cost of opening) (Haikou: Hainan chubanshe gongsi, 1993), p. 8. Throughout China's imperial history, Hainan was often used as a place where the emperor would send the officials who earned his displeasure into internal exile. The most famous is the Song poet Su Dongpo.

11 The Danish missionary Carl Jeremiassen went to the interior of the island in 1885. See Enderton, *Hainan Dao*, p. 110.

12 See Daignault, "Regional Development Strategy in the PRC: The Case of Hainan Island," p. 8.

13 Cited from The American Presbyterian Mission, *The Isle of Palms: Sketches of Hainan*, p. 1.

14 Xu, Shijie (ed.), *Hainan Sheng – ziran, lishi, xianzhuang yu weilai* (Hainan Province – nature, history, current situation and future) (Beijing: shangwu yin shuguan, 1988), pp. 346–347.

15 See Liao Xun, *Kaifang de chengben*, p. 6.

16 Ibid., p. 7. See also Daignault, "Regional Development Strategy in the PRC: The Case of Hainan Island," p. 12.

17 The first group of CCP guerrilla fighters appeared in Hainan already in 1927. They controlled parts of Wanning, Wenchang and some districts in Linggao.

18 Xu (ed.), *Hainan Sheng – ziran, lishi, xianzhuang yu weilai*, p. 124.

19 *Hainan tongji nianjian 1987* (Hainan Statistical Yearbook) (Hangzhou: Zhongguo tongji chubanshe, 1988), p. 43 and *Zhongguo tongji nianjian 1981* (China Statistical Yearbook) (Beijing, Zhongguo tongji chubanshe, 1982), p. 5.

20 *Hainan tongji nianjian 1987*, p. 42 and *Hainan tongji nianjian 2006*, p. 21.

21 Daignault, "Regional Development Strategy in the PRC: The Case of Hainan Island," p. 19.

22 Xu Shijie (ed.), *Hainan Sheng – ziran, lishi, xianzhuang yu weilai*, p. 124.

23 Gottwald, "Das Hainanprojekt und die Grenzen zentralstaatlicher Reformpolitik in der Volksrepublik China," pp. 64–68.

3 Establishing a new province

1 See "Hainan dao wenti zuotanhui jiyao" (Summary of meeting concerning the Hainan Island problem), *Guowuyuan guofa*, No. 202 (1980), translated in *Chinese Law and Government* 27(4) (July–August 1994): 67–82.

2 See also *Renmin ribao*, August 9, 1980.

3 "Hainan dao wenti zuotanhui jiyao," p. 79.

4 Ibid., p. 71.

5 Ibid., p. 77.

6 *Nanfang ribao*, August 25, 1980.

7 See "Guanyu xuexi guanche guowuyuan, shengwei de zhibiao jiasu Hainan dao jianshi de tongzhi" (Notice on studying and implementing the goals of the State Council and the Provincial Party Committee to accelerate Hainan's construction), in Hainan qu dangwei yanjiushi (ed.), *Wenjian ziliao huibian: Guanyu jiakuai kaifa jianshe Hainan dao wenti*, Vol. 1 (Collection of documents and materials: problems concerning the acceleration of the opening up and construction of Hainan Island) (Hainan qu dangwei yanjiushi, 1985).

8 "Zhonggong Guangdong shengwei, Guangdong sheng renmin zhengfu guanyu jiakuai Hainan dao kaifa jianshe jige wenti de jueding" (Decision of the Party Committee of Guangdong Province and the People's Government of Guangdong on some problems concerning accelerating the development and establishment of Hainan Island), Zhonggong Guangdong shengwei yuefa (1981) 71 hao (Circular No. 71 from the Party Committee of Guangdong Province), in *Wenjian ziliao huibian: Guanyu jiakuai kaifa jianshe Hainan dao wenti*, Vol. 1, pp. 103–119.

9 Cited from Carsten Boyer Thøgersen and Jørgen Delman, "Hainan vil overhale Taiwan" (Hainan plans to overtake Taiwan), *Kina Information*, No. 2 (1982), pp. 1–6.

10 Whereas local officials seemed to think that further opening up would solve all problems, the center seemed to focus its attention on solving environmental and economic imbalances on the island and on a thorough reform of the leadership of the island. For this reading of the mood of the center, see *Renmin ribao*, February 2, 1982.

11 See Vogel, *One Step Forward in China*, p. 289.

12 See Shi Hua, "Hainan shijian jiechu zhong zhong neimu" (The Hainan incident has revealed many controversies behind the scene), *Jiushi Niandai*, No. 8 (1985), p. 50.

13 "Jiakuai Hainan dao kaifa jianshe wenti taolun jiyao" (A summary of the discussion on questions concerning accelerating Hainan's development and establishment), Zhongggong zhongyang zhongfa (1983) 11 hao wenjian (The Chinese Communist Party's Circular No. 11 (1983)), in *Wenjian ziliao huibian: Guanyu jiakuai kaifa jianshe Hainan dao wenti*, pp. 2–16. Translated in *Chinese Law and Government* (27)4 (July–August 1994): 83–96.

14 Ibid., p. 90.

15 Ibid.

16 Ibid., p. 92.

17 Ibid., p. 93.

18 "Ren Zhongyi on development of Hainan," *Jingji Daobao*, March 20, 1983, translated in *JPRS* No. 338, May 12, 1983: 112–114.

19 See Li Huajie and Zhu Naixiao, "Hainan dao jianli ziyou gang chutan," (Preliminary investigations concerning establishing a free port in Hainan Island), *Hainan dao: fazhan_zhanlüe yanjiu ziliao ji* (Hainan Island: collection of research material on development strategies) (Beijing: Zhongguo renmin daxue, 1988), pp. 279–282.

20 See Daignault, "Regional Development Strategy in the PRC: The Case of Hainan Island," p. 47.

21 See Vogel, *One Step Forward in China*, pp. 291–294; and *Beijing Review*, No. 32, 1985, pp. 8–9.

22 Vogel, *One Step Forward in China*, p. 292.

23 In addition to their party and government posts they were all leading officials in the Hainan Island Exploration and Construction General Company, set up in May 1984. Lei Yu and Yao Wenxu were Vice-Chairman and Chairman of the

Board of Directors, respectively, and Chen Yuyin was Assistant General Manager. The company was set up to: (a) operate construction projects, (b) to supervise and coordinate the introduction of foreign technology and capital, (c) to be in charge of the Hainan Land Petroleum Exploitation Company, The Hainan Marine Products Exploitation Company, the Hainan Electric Products Exploitation Company, the Hainan Aviation Service Company, and other specialized companies. See *JPRS*, No. 048, June 20, 1984: 70. These assignments gave the company broad contacts and many of the car deals that happened involved the companies or one of its affilitations.

24 Daignault, "Regional development strategy in the PRC: the case of Hainan Island," p. 61.

25 Lin Ruo, "Draw a Lesson, Implement Policies, and You Will Have a Bright Future," *Nanfang Ribao*, August 4, 1985, in *FBIS-CHI*, August 8, 1985: P/1–9.

26 Gu Mu, "Opening to the Outside World: A Strategic Decision Reinvigorating China," *Shijie Jingji Daobao*, July 8, 1985, in *FBIS-CHI*, August 2, 1985: K/3–14.

27 Chen Yun's speech at the Sixth Plenary Session of the Central Discipline Inspection Commission in September 1985 showed that he kept an eye on developments in the south. See *Xinhua*, September 26, 1985, in *FBIS*, September 26, 1985, pp. K/33–35. In an interview with Hong Kong and Macao reporters Yao Yilin also expressed a pessimistic assessment of zone policies. See Crane, *The Political Economy of China's Special Economic Zones*, p. 111.

28 See *Renmin ribao*, August 1, 1985.

29 See Joseph Fewsmith, "Special Economic Zones in the PRC," *Problems of Communism* (November–December 1986): 78–85.

30 See "Zhao Ziyang tongzhi shicha Hainan dao jiejian dang, zheng, jun, lingdao ganbu shi de jianghua" (Zhao Ziyang's talk to leading cadres of party, government, and army during his inspection of Hainan Island) in Zhonggong Hainan shengwei, tizhi gaige yanjiushi and zhengce yanjiushi (ed.), *Fangzhen zhengce fagui zhanlüe: guanyu Hainan jian sheng, ban da tequ wenjian ziliao huibian* (Principles, policies, laws and regulations and strategies: a collection of documents and material concerning the establishment of Hainan as a province and a big special zone), Vol. I (n.p., July 1988), pp. 67–81.

31 See *Renmin ribao*, February 20, 1986.

32 For a chronology of important events in 1986 and 1987, see Hainan Ribao shejizhe, "Zhongguo tequsheng de jueqi: Hainan choubei jian sheng dashiji" (The creation of China's provincial special zone: a chronology of important events in Hainan's preparation to establish a province), in Zhonggong Hainan shengwei, *Fangzhen zhengce fagui zhanlüe*, Vol. 3 (n.p., October 1988), pp. 152–188. For Liang Xiang's report, see "Liang Xiang xiangshu Hainan jiansheng jiangguo" (Liang Xiang discusses in detail the establishment of Hainan Province), Zhonggong Hainan shengwei, *Fangzhen zhengce fagui zhanlüe*, Vol. 1 (n.p., July 1988), pp. 166–180.

33 A *juren* from Wenchang by the name of Pan Cun was the first to suggest that Hainan be given the status of a province. He came up with his suggestion in 1887, at a time when France was colonizing Vietnam. The second time it was suggested was by Sun Yatsen, who proposed the idea for the first time in 1912. Sun Yatsen even coined a name for the suggested new province – "Guangnan." He gave up the idea when the Canton warlord Chen Jiongming turned against him. Feng Baiju, the head of administrating Hainan until 1958, also suggested turning Hainan into a province independent of Guangdong. Hainan ribao shejizhe, "Zhongguo tequsheng de jueqi: Hainan choubei jian sheng dashiji," p. 154.

34 *Ibid.*, pp. 157–158.

35 *JPRS*, No. 003 (February 11, 1988): 19.

36 See "Zhonggong zhongyang, guowuyuan guanyu jianli Hainan sheng ji qi choujian gongzuo de tongzhi – zhongfa 23 hao, 1987" (Notice of the CCP Central Committee and the State Council concerning the establishment of Hainan Province and the initial work – Central Document, No. 23 1987) in Zhonggong Hainan shengwei, *Fangzhen zhengce fagui zhanlüe*, Vol. I, pp. 7–10.

37 See *JPRS*, No. 003 (February 11, 1988): 19.

38 *Renmin ribao*, October 12, 1987.

39 The report is contained in Liu Guoguang (ed.), *Hainan jingji fazhan zhanlüe* (Hainan's economic development strategy) (Beijing: Jingji guanli chubanshe, 1988).

40 The plans are discussed in detail in a Danish MA thesis by Susan Aagaard Petersen and Mads Kirkebæk entitled "Hainan som provins og særlig økonomisk zone" (Hainan as a Province and Special Economic Zone) (MA Thesis, Department of Asian Studies, University of Copenhagen, 1990).

41 *Renmin ribao*, February 27, 1988.

42 "Di qi jie quanguo renmin daibiao dahui di yi ci huiyi guanyu sheli Hainan sheng de jueding (April 13, 1988)" (The decision of the First Session of the Seventh National People's Congress to establish Hainan Province), in Zhu Yue and Li Guangming (eds.), *Hainan kaifa zhinan*, p. 1; and "Di qi jie quanguo renmin daibiao dahui di yi ci huiyi guanyu jianli Hainan jingji tequ de jueyi (April 13, 1988)" (The Decision of the First Session of the Seventh National People's Congress to establish Hainan special economic zone), ibid., p. 2.

43 For a discussion of Hainan leaders and their policies, see also Feng Chongyi and David S.G. Goodman, "Hainan Province in Reform: Political Dependence and Economic Interdependence," in Peter Cheung, Jae Ho Chung and Zhimin Lin (eds.), *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation* (Armonk, NY: M.E. Sharpe, 1998).

44 See "Gunayu Hainan dao jin yi bu dui kaifang jiakuai jingji fazhan jianshe de zuotanhui jiyao" (Summary of the forum on further opening and accelerating economic development), in Zhonggong Hainan shengwei *Fangzhen zhengce, fagui, zhanlüe*, Vol. 1, pp. 13–32; and "Guowuyuan guanyu guli touzi kaifa Hainan dao de guiding" (Regulations of the State Council stimulating investment to develop Hainan Island) in Hainan sheng renmin zhengfu shehui jingji fazhan yanjiu zhongxin (ed.), *Hainan tequ guli touzi zhengze huibian* (Policy documents of Hainan Special Zone on stimulating investment) (n.p., September 1988), pp. 64–70.

45 *China aktuell*, No. 1 (2007).

46 Huang Yasheng, *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations During the Reform Era* (Cambridge: Cambridge University Press, 1996).

47 See Feng Chongyi and Zhan Changzhi, "Openness, change and translocality: new migrants' identification with Hainan," in Tim Oaks and Louisa Schein, *Translocal China: Linkages, Identities and the Reimagining of Space* (London: Routledge, 2006).

48 Ibid., p. 85.

49 See Feng Chongyi and David S.G. Goodman, "Hainan's communal politics and the struggle for identity," in David S.G. Goodman (ed.), *China's Provinces in Reform: Class, Community, and Political Culture* (London: Routledge, 1997), pp. 53–92.

50 See Ezra Vogel, *Canton Under Communism: Programs and Politics in a Provincial Capital, 1949–1968* (New York: Harper and Row, 1971).

51 Ibid., p. 216.

52 For a colonial interpretation of Hainan's relationship to the mainland before 1988, see Feng and Goodman, "Hainan's communal politics and the struggle for identity."

53 Ibid.

4 The economy of Hainan

1 See Lardy, *Foreign Trade and Economic Reform in China*; Jude Howell, *China Opens Its Doors: The Politics of Economic Transition* (Harvester Wheatsheaf: Lyenne Rienner Publishers, 1993; Yasheng Huang, *Selling China: Foreign Direct Investment During the Reform Era* (Cambridge: Cambridge University Press, 2003).

2 See Crane, *The Political Economy of China's Special Economic Zones.*

3 Barry Naughton, *Growing out of the Plan: Chinese Economic Reform, 1978–1993*; Doug Guthrie, *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China* (Princeton, NJ: Princeton University Press, 1999).

4 Susan Young, *Private Business and Economic Reform in China* (Armonk, NY: M.E. Sharpe, 1995); Willy Kraus, *Private Business in China* (Honolulu: University of Hawaii Press, 1991).

5 In Chinese sources there is a distinction between individual enterprise (*geti hu*) and private enterprises (*siying qiye*). Enterprises owned by individual households and employing more than seven workers are classified as private, while enterprises with less than eight employees are classified as individual. The former category were legally not permitted until 1988, but nevertheless developed rapidly through the mid-1980s. See Kjeld Erik Brødsgaard, "China's Political Economy in the Nineties," *China Report*, 27(3) (1991): 177–196.

6 W. Byrd and Q.S. Lin (eds.), *China's Rural Industry: Structure, Development and Reform* (New York: Oxford University Press, 1990); Kjeld Erik Brødsgaard and Kamal Sheel, "Informalization and Growth: The Political Economy of Local Enterprises," in Kjeld Erik Brødsgaard and Susan Young (eds.), *State Capacity in East Asia* (Oxford: Oxford University Press, 2000), pp. 203–235.

7 *Hainan tongji nianjian 2001*, p. 21 and *Zhongguo tongji nianjian 2001*, p. 49.

8 *Hainan tongji nianjian 1990*, p. 247.

9 *Hainan tongji nianjian 2006*, p. 29 and *Zhongguo tongji nianjian 2006*, p. 57.

10 *Hainan tongji nianjian 2001*, pp. 21–22.

11 Ibid., p. 23.

12 *Hainan tongji nianjian 1988*, p. 233.

13 Ibid., p. 321.

14 Ptak, "Zur Entwicklung der Industrie auf Hainan 1980–1987: Ein Überblick," p. 11.

15 *Hainan Tongji Nianjian 1994*, p. 13 and *Hainan tongji nianjian 2001*, pp. 22–23.

16 *Zhongguo tongji nianjian 1989*, p. 33.

17 *Zhongguo Tongji Nianjian 1994*, p. 32; *Hainan tongji nianjian 1994*, p. 19; *Zhongguo tongji nianjian 2006*, p. 57.

18 See *Guangdong tongji nianjian 1994* (Guangdong Statistical Yearbook 1994) (Beijing: Zhongguo tongji chubanshe, 1994), p. 87; and *Shenzhen tongji nianjian 1994* (Shenzhen Statistical Yearbook 1994) (Beijing: Zhongguo tongji chubanshe, 1994), p. 33. The Shenzhen figure covers the whole district (*diqu*) of Shenzhen, the special economic zone as such (*Shenzhen tequ*) is even richer with a per capita income in 1993 of 22,445 *yuan.*

19 *Zhongguo tongji zhaiyao 1995* (China Statistical Abstract) (Beijing: Zhongguo tongji chubanshe, 1995), p. 11; *Zhongguo tongji nianjian 2001*, p. 59, *Zhongguo tongji nianjian 2006*, p. 66.

20 Regarding listing of Shanghai compared to other countries, see The World Bank, *World Development Report* (New York: Oxford University Press, 2002), p. 232.

21 Hu Angang, Zou Ping and Li Chunbo, "1978–2000 nian: Zhongguo jingji shehui fazhan de diqu chaju" (1978–2000: regional differences in China's economic and social development), in Ru Xin, Lu Xueyi and Dan Tianlun (eds.), *2001 nian: Zhongguo shehui xingshi fenxi yu yuce* (2001: analysis and forecast of China's social situation) (Beijing: Shehui kexue wenxian chubanshe, 2001), pp. 167–184.

22 The per capita GDP of Shenzhen was 35,896 *yuan* in 1999. See *Shenzhen tongji nianjian 2001*, p. 90.

23 *Hainan tongji nianjian 2006*, pp. 33, 55.

24 *Hainan tongji nianjian 2001*, p. 24; *Hainan tongji nianjian 2006*, p. 33.

25 *Hainan tongji nianjian 2006*, p. 33.

26 *Hainan tongji nianjian 2006*, p. 258.

27 *Hainan tongji nianjian 2001*, p. 224; *Hainan tongji nianjian 2006*, p. 272.

28 See Ricky Tung, "Obstacles to the Development of Hainan Special Economic Zone," *Issues and Studies* 24(6) (June 1988): 105–127.

29 *Zhongguo tongji nianjian 2006*, p. 483; *Hainan tongji nianjian 2006*, p. 271.

30 *Hainan tongji nianjian 2006*, pp. 270, 276.

31 *Hainan tongji nianjian 1989*, p. 142.

32 According to Vogel, the issue of rubber production was discussed when Mao and Stalin met in late 1949. The Soviet Union could supply strategic materials such as iron, steel and energy, but lacked rubber. The two of them therefore decided to develop rubber production at a suitable place in China. Hainan was chosen because of its superior climate and because some overseas Chinese returning from Malaysia had established a few rubber farms there already in 1919. See Vogel, *One Step Ahead in China*, p. 278.

33 Ibid., see also Paul M. Cadario, Kazuko Ogawa, and Yinn-Kann Wen, "A Chinese Province as a Reform Experiment: The Case of Hainan," *World Bank Discussion Papers*, No. 170, (Washington 1992), pp. 13–14.

34 Ibid., p. 14.

35 *Zhongguo tongji nianjian 2006*, p. 509; *Hainan tongji nianjian 2006*, pp. 304, 307.

36 *Hainan tongji nianjian 2001*, p. 15; *Zhongguo tongji nianjian 2001*, p. 401; *Zhongguo tongji nianjian 2004*, p. 505; *Hainan tongji nianjian 2006*, p. 306.

37 See also Renate Krieg, Gunda Müller, Monika Schädler and Liu Jen-kai, "Die Provinz Hainan: Wirtschaft, Geographie, Gesellschaft" (Hainan Province: economy, geography, and society), *China aktuell* (August 1986), pp. 785–797.

38 *Hainan tongji nianjian 2006*, p. 326.

39 Tung, "Obstacles to the Development of Hainan Special Economic Zone," p. 119.

40 *Hainan Tongji Nianjian 1994*, p. 179.

41 Other sources claim a substantial lower share for the state, e.g. *Hainan tongji nianjian 2006* mentions a figure of only 15 percent. The discrepancy seems to be related to definitional problems. In the 1980s and early 1990s there were basically three categories of industrial enterprises, namely state-owned enterprises, collective enterprises, and private enterprises. However, as a consequence of the restructuring of the state sector, which has been carried on since 1997, there are now at least four alternative organizational forms of enterprises and several subforms. The main forms are: limited liability stock company, limited liability company, employee shareholding co-operative and private enterprise. The latter category refers to private sole proprietorships, partnerships and entirely privately owned limited liability companies. Official statistics indicate that the number of Chinese SOEs has decreased substantially since the mid-1990s. However, the state is often a major shareholder in many of those restructured enterprises that are now listed as private. Furthermore, shareholding companies and shareholding cooperatives are currently not categorized as SOEs, but they are also not called private. Instead they are placed in a separate category. In sum, as a consequence of restructuring, the number of SOEs has been reduced, but the statistics conceal that many of the larger restructured firms are still partially state-owned. That is, there is a great deal of ambiguity of property rights in restructured firms. See Yi-min Lin and Tian Zhu, "Ownership Restructuring in Chinese State Industry: An Analysis of Evidence on Initial Organizational Changes," *The China Quarterly*,

No. 166 (June 2001): 305–341 and Jean C. Oi, "Patterns of Corporate Restructuring in China: Political Constraints on Privatization," *The China Journal*, 53 (January 2005): 115–136; Stephen Gree and Guy S. Liu, *Exit the Dragon: Privatization and State Control in China* (Oxford: Blackwell Publishing, 2005). The ambiguities are further compounded by the fact that there is often also a substantial blurring of ownership forms in the foreign sector. For the difficulties in interpretating Chinese official industrial statistics, see also Carsten A. Holz and Yi-min Lin, "Pittfals of China's Industrial Statistics: Inconsistencies and Specification Problems," *The China Review*, 1(1) (Fall 2001): 29–72.

42 *Hainan tongji nianjian 1994*, p. 179; *Zhongguo tongji nianjian 2006*, pp. 516, 526, 536.

43 See Feng Chongyi, "Reluctant Withdrawal of Government and Restrained Development of Society," *China Perspectives*, No. 35 (May–June 2000): 25–37.

44 *Hainan tongji nianjian 2006*, p. 342.

45 See "Hainan xinxing gongye zhi lu: 'Da qiye jinru, da xiangmu daidong' zhanlüe" (Hainan's new type of industrialization: "The strategy of entering big companies, and operating big projects") (http://www.ccgov.org.cn/baixing/baigz20060726_001htm).

46 Liao Xun, *Kaifang de chengben*, p. 8.

47 *Hainan tongji nianjian 1987*, p. 398.

48 According to Liao Xun, military investments probably figures in the overall figure for state investments in Hainan for the period dicussed here. See Liao Xun, *Kaifang de chengben*, p. 8.

49 *Hainan Tongji Nianjian 1989*, pp. 374–375.

50 *See Hainan tongji nianjian 2001*, p. 415.

51 See Cadario, Ogawa, and Wen, *A Chinese Province as a Reform Experiment*, p. 37.

52 See *Hainan tongji nianjian 2006*, p. 185.

53 *Zhongguo tongji nianjian 2000*, pp. 117 and 139.

54 *Zhongguo tongji nianjian 2006*, pp. 128–129. In *The Development Report of Non State-Owned Economy in China*, the average growth rate of employment in the *siying qiye* during the period from 2000 to 2005 was 18.6 percent on average in China, whereas it was 16.1 percent in Hainan. In year 2005 specifically, however, Hainan's growth rate was larger than the national growth rate, increasing to 23.7 percent and 15.9 percent, respectively. Part of the explanation for this may be that the State Council of PRC in February officially declared its regulations, "Several viewpoints/*Ruogan yijian*," encouraging the support and development of non-state-owned enterprises. See *Zhongguo minying jingji fazhan baogao* (The development report of non state-owned economy in China), No. 3 (2005–2006), pp. 17, 565–566.

55 Ibid., p. 564.

56 The private urban workforce includes private enterprises and self-employed individuals in urban areas, but not foreign-funded enterprises or enterprises with funds from Hong Kong, Macao, and Taiwan, as these are not specified as private enterprises in the statistics. Including the employees in foreign-funded enterprises (FFEs) would have resulted in a higher percentage. In Hainan the share of private urban workforce of total urban workforce would amount to 41.2 percent (with a total private urban workforce of 503,000 people). In addition when comparing the statistics carried in the national statistical yearbook *Zhongguo tongji nianjian* with the statistics in the provincial statistical yearbook *Hainan tongji nianjian*, they often do not totally correspond. This explains why the percentage of private urban workforce in Table 14, based on *Zhongguo tongji nianjian*, differs from the percentage in Table 12, based on *Hainan tongji nianjian*.

57 See Brødsgaard, “State and Society in Hainan: Liao Xun’s Ideas on ‘Small Government, Big Society.’ ”

58 As noted above, Chinese statistics usually distinguish between private economy (*siying jingji*) and individual economy (*geti jingji*). Except for the discussion above, the present study lumps the two categories together under the label private sector or private economic activity.

59 See Haikou shi gongshangju, “1992 geti siying jingji guanli nianzhong zongjie” (Summing up of the management of individual and private enterprises at the end of 1992) (Haikou, December 11, 1992).

60 *Haikou nianjian 2005* (Haikou Yearbook 2005) (Haikou Hainan chubanshe, 2005), p. 376.

61 See He Qinglian, *Xindaihua de xianjing* (The pitfall of modernization) (Beijing: Jinri Zhongguo chubanshe, 1998).

62 See “Zhonghua Renmin gongheguo siying qiye zanxing tiaoli” (Preliminary regulations of the PRC on private enterprises) *Zhonghua Renmin Gongheguo Guowuyuan gongbao*, July 25, 1988, pp. 483–489.

63 The survey was conducted by the author in January 1992. It consisted of a questionnaire distributed to 40 private entrepreneurs and 33 questionnaires were returned. The questionnaires distributed contained questions grouped into four main sections. One section concerned the personal background of the entrepreneur (age, gender, educational background, etc.). The second section dealt with the background of the entrepreneur’s parents. The third section was about the situation of the enterprise and its workers (ownership, time of opening, situation of the employees, etc.). Finally, the fourth section addressed questions concerning social activity (party membership, membership of any club or association, hobbies, etc.). See “Urban Private Business and Entrepreneurs in Haikou City” (Paper presented to the Conference “State and Society in East Asia,” Copenhagen April 29–May 2, 1993).

64 In the aftermath of the Tiananmen crackdown, the Central Committee of the CCP issued a regulation on August 28, 1989, stressing that it was not allowed to recruit private entrepreneurs into the CCP. The regulation used the formulation “Our party is the vanguard of the working class. Since there is an exploitative relationship between private entrepreneurs and workers, private entrepreneurs cannot be recruited into the party.” See *Xinshiqi dang de jianshe wenjian xuanbian* (Selected documents of party building in the New Year) (Beijing: Renmin chubanshe, 1991). One week earlier, the new General Secretary of the CCP, Jiang Zemin, had argued: “I completely agree that private entrepreneurs cannot join our party. Our party is the vanguard of the working class. If we allow those who do not want to give up exploitation and those who live on exploitation, what kind of party are we going to build?” See ibid., p. 442.

65 Based on fieldwork among private entrepreneurs in Xianmen, David Wank reaches different conclusions. He maintains that capitalist entrepreneurship in China is embedded in *guanxi* with local cadres and that capitalist growth has been stimulated “because of, not in spite of this embeddedness.” As a consequence, entrepreneurs are more interested in developing alliances than in autonomy seeking. See David Wank, *Commodifying Communism: Business, Trust, and Politics in a Chinese City* (Cambridge: Cambridge University Press, 1999).

66 See Brødsgaard and Sheel, “Informalization and Growth: The Political Economy of Local Enterprises.”

67 David Zweig, *Internationalizing China: Domestic Interest and Global Linkages* (Ithaca: Cornell University Press, 2002).

68 See Wang Zhimeng, “Hainan xiangzhen qiye weishenme fazhan huan man” (Why do Hainan’s township industries develop so slowly?) (n.p., n.d.).

69 Cheng Taiqin, *Da tequ nongcun jingji tansuo* (Investigation of the rural economy of the big special zone) (Beijing: Nongye chubanshe, 1996), p. 122.
70 *Zhongguo Tongji Nianjian 1994*, pp. 85 and 363.
71 *Hainan nianjian 2000*, pp. 359–360.
72 In Jiangsu, for example, collectively owned TVEs employed almost a third of the workforce, contributed 47 percent of the value of industrial production and accounted for 64 percent of fixed investments. The same pattern can be found in Shandong province. In Guangdong, the collectively owned TVEs even employed 55 percent of the workforce and accounted for 59 percent of the sector's total industrial production. See *Zhongguo xiangzhen qiye nianjian 2001* (China Township and Village Enterprises Yearbook 2001) (Beijing: Zhongguo nongye chubanshe, 2001), pp. 96–101.
73 *Hainan Tongji Nianjian 1994*, pp. 23 and 153.
74 *Zhonguo nongye nianjian 2001* (China Agricultural Yearbook 2001) (Beijing: Zhongguo nongye chubanshe, 2001), p. 344 and *Hainan tongji nianjian 2001*, p. 32.

5 Foreign trade and investment

1 See "Hainan jingji tequ waishang touzi tiaoli" (Regulations of Hainan Special Economic Zone on foreign investment) (Adopted by the Standing Committee of the People's Congress of Hainan Province at its Fifteenth Session on 16 March, 1991), in *Hainan nianjian 1992* (Haikou Yearbook 1992) (Haikou: Xinhua chubanshe, 1992), pp. 422–424. Earlier regulations pertaining to foreign economic relations include "Hainan sheng renmin zhengfu guanyu guanche guowuyuan (1988) 26 hao wenjian jiakuai Hainan jingji tequ kaifa jianshe de ruogan guiding" (Some stipulations by the provincial government of Hainan concerning the implementation of State Council Document No. 26 on accelerating the development and construction of Hainan Special Economic Zone), *Hainan tongji nianjian* 1989, pp. 6–10.
2 Liao Xun, *Kaifang de chengben*, p. 19.
3 *Hainan tongji nianjian 1989*, p. 539.
4 *Hainan tongji nianjian 1994*, pp. 387–388, 390.
5 Figures indicate substantial variations concerning the origin of FDI inflows. Hong Kong investment has fluctuated between 34 percent and 55 percent (in 1993) of total FDI. US investment has increased its share from 7.4 percent in 1993 to 30 percent in 2000. Japanese FDI has consistently been low and amounted to only 3.5 percent in 2002, down from 10.6 percent in 1996. Of European countries, the UK is the most significant investor with investment of US$ 13.81 million in 2002 (6.0 percent). See *Hainan tongji nianjian 1996*, p. 478; *Hainan tongji nianjian 1998*, p. 342; *Hainan tongji nianjian 2001*, p. 403; *Hainan nianjian 2003*, p. 414.
6 *Zhongguo tongji nianjian 1995*, pp. 33 and 551.
7 Liao Xun, *Kaifang de chengben*, p. 133.
8 See *Hainan nianjian 1994*, Vol. III, p. 43.
9 Ibid.
10 Ibid.
11 *Hainan tongji nianjian 1997*, p. 467.
12 *Zhongguo tongji nianjian 1997*, pp. 43 and 603.
13 It is illustrative to compare with Shenzhen. In 2000 the total export value of Shenzhen was US$ 34.6 billion, i.e. 43 times the size of Hainan's. Shenzhen's export accounted for 37.6 percent of the total export value of Guangdong Province and 13.9 percent of the total export value of all of China, compared to 0.32 for Hainan. See *Almanac of China's Foreign Economic Relations and Trade 2001*,

p. 464. It is noteworthy that in the heyday of the Hainan reform fever in the early 1980s it was thought that Hainan could overtake Shenzhen as an export base and destination for foreign direct investment.

14 See *China Commerce Yearbook 2006* (Beijing: China Commerce and Trade Press, 2006), p. 606.

15 Ibid., p. 337.

6 Yangpu Economic Development Zone

1 "Yangpu ren de kaifa meng: (2) Yangpu de sushuo" (The Yangpu people's dream of opening up: (2) The story of Yangpu), *Hainan ribao*, April 28.

2 "Xu Shijie zai tan Yangpu kaifa wenti" (Xu Shijie talks again about questions concerning developing Yangpu), *Hainan ribao*, April 26, 1989.

3 *Beijing Review*, December 8–14, 1997, pp. 9–12.

4 Daignault, "Regional Development Strategy in the PRC," p. 102.

5 "Hainan Draws up Plans for Construction of Yangpu Port," *JPRS-CEA-86-115*), October 30, 1986: 24.

6 See "Hainan Yangpu kaifaqu jiang jiancheng 'ziyougang'" (Hainan Yangpu development area will be established as a "free port"), *Renmin ribao*, August 22, 1988, p. 1.

7 This was not the Hong Kong based Kumigai Gumi's first venture in Hainan. They were also the key contractor in building the Haikou Financial Center. The center was the seat of the Hainan Branch of the People's Bank of China and the first modern service and finance center in Hainan. It was opened by President Yang Shangkun.

8 See Petersen and Kirkebæk, "Hainan som provins og særlig økonomisk zone," p. 177.

9 See *Liaowang* (Overseas Edition), No. 17, April 24, 1989, pp. 7–9, in *JPRS-CAR-89-064*, June 22, 1989: 52–53.

10 See Zhang Wei "Zhang Wei deng wu wei zhengxie weiyuan fufu Hainan kaocha hou tichu qitiao fandui liyou" (After having participated in an inspection of Hainan Zhang Wei and four other members of the Political–Consultative Conference put forward seven reasons to oppose leasing of land), *Shijie jingji daobao*, April 24, 1989, translated in *JPRS-CAR-89-063*, June 16, 1989.

11 Zhang Shiping, "Dui Hainan jingji tequ jianshe zhong ruogan zhongda wenti de kanfa" (Views on certain important questions in establishing Hainan Special Economic Zone), *Hainan ribao*, February 16, 1989. For other arguments in favor of the "Yangpu Model," see Zhong Yecheng, "Hainan zou 'chengbao kaifa' xin luzi xuyao yanjiu de yixie wenti" (Some questions which should be investigated in connection with Hainan's new road of 'contract development,'" *Hainan ribao*, March 9, 1989.

12 See Cadario, Ogawa, and Wen, *A Chinese Province as a Reform Experiment*, p. 27.

13 See Zhao Ziyang, "Zhao Ziyang tongzhi zai zhongyang caijing lingdao xiaozu taolun Hainan jian sheng ban da tequ jiben zhengce hui shang de tanhua yaodian" (The main points of Comrade Zhao Ziyang's speech at the Meeting of the Financial and Economic Leading Group of the CCP Central Committee on basic policies for establishing Hainan Province and Hainan Special Economic Zone), in Zhonggong Hainan shengwei, *Fangzhen, zhengce, fagui, zhanlüe*, Vol. 3, pp. 1–5.

14 *See Yangpu jingji fazhan qu fengbi yunzuo jinian huace* (Commemorative album for enclosure and operation of Yangpu Economic Development Area) (September 1993).

15 Winston Yau, "Yangpu to be the Powerhouse of SEZ," *Hong Kong Standard*, April 27, 1998.

16 *Zhongguo fazhan qu nianjian 2006* (China Development Zones Yearbook 2006) (Beijing: Zhongguo caizheng jingji chubanshe: 2006), pp. 376–377.
17 *Zhongguo fazhan qu nianjian 2005* (China Development Zones Yearbook 2005) (Beijing: Zhongguo caizheng jingji chubanshe: 2005), pp. 327–328.
18 *Zhongguo fazhan qu nianjian 2006*, p. 377.
19 *Zhongguo fazhan qu nianjian 2005*, p. 327.

7 "Small government" in Hainan

1 This is based on Brødsgaard, "Bianzhi and Cadre Management in China: The Case of Yangpu."
2 There are very few discussions of the *bianzhi* system available. Exceptions include Brødsgaard, "Bianzhi and Cadre Management in China: The Case of Yangpu;" and Brødsgaard, "Institutional Reform and the *Bianzhi* System in China." See also Keith W. Foster, "Embedded within State Agencies: Business Associations in Yantai," *The China Journal*, No. 47 (January 2002): 41–65.
3 *Shiye danwei* are also different from economic enterprises in that they are not oriented towards profit seeking. Therefore, the translation of *shiye danwei* is sometimes rendered as non-profit organizations. They include hospitals, schools, kindergartens, universities, and other institutions in health care, sports, social welfare, culture, and research. See Lam Tao-Chiu and James L. Perry, "Service Organizations in China: Reform and its Limits," in Peter Nan-Shong Lee and Carlos Wing-Hung Lo (eds.), *Remaking China's Public Management* (Westport, CN: Quorum Books, 2001), pp. 19–40.
4 On occasion, a social organization bianzhi (*shehui tuanti bianzhi*) has been mentioned, but it is rarely used. Mostly the *bianzhi* of social organizations is categorized as *shiye bianzhi*. See also Foster, "Embedded within State Agencies," p. 47.
5 See Bohdan Harasymiw, "Nomenklatura: The Soviet Communist Party's Leadership Recruitment System," *Canadian Journal of Political Science*, 2(4) (December 1969): 494.
6 See also Burns, "'Downsizing' the Chinese State: Government Retrenchment in the 1990s."
7 Zhonggong zhongyang zuzhibu, Zhonggong dangshi yanjiushi, and Zhongyang dang'an guan, *Zhongguo gongchandang zuzhishi ziliao, 1921–1997, fujuan 1* (Material on the organisational history of China's Communist Party, 1921–1997, Appendix Vol. 1) (Beijing: Zhonggong dangshi chubanshe, 2000) p. 929.
8 *Zhongguo tongji nianjian 2005*, p. 130. In addition, there are about 28 million encompassed by the *bianzhi* system in production enterprises.
9 See Kjeld Erik Brødsgaard, "China's Civil Service Reform: Changing the Bianzhi," *EAI Background Brief No. 81* (14 February 2001).
10 Calculated on the basis of the total number of employees in state, party and mass organizations minus an estimated number of about 8–13 percent logistic workers and temporary personnel. For this method of calculating the number of civil servants in China, see also Zhu Guanglei, *Dangdai Zhongguo shehui gejiceng fenxi* (Analysis of social strata in contemporary China) (Tianjin: Tianjin renmin chubanshe, 1998), p. 141.
11 *Chaobian* is unresearched in Western literature on China's administrative system and practices. For an exception, see Brødsgaard, "Institutional Reform and the *Bianzhi* System in China." See also Wu Jie (ed.), *Zhongguo zhengfu yu jigou gaige* (China's government and institutional reform) (Beijing: Guojia xingzheng xueyuan chubanshe, 1998) and Ren Jie and Liang Ling, *Gongheguo jigou gaige yu bianqian* (The vicissitudes of administrative reform in the PRC (Beijing: Wenhua chubanshe, 1999).
12 See Zhonggong zhongyang zuzhibu xinxi guanli zhongxin (The Information Administration Center of the Central Organizational Department of the CCP),

Zhongguo gongchandang dangnei tongji ziliao huibian, 1921–2000 (Collection of statistical material on the Chinese Communist Party) (Beijing: Dangjian duwu chubanshe, 2002), p. 5.

13 Ibid., pp. 13 and 19.

14 Ibid., pp. 39 and 62.

15 Ibid., p. 91.

16 Ibid., p. 114. For a discussion of the relationship between cadre composition and party membership, see also Kjeld Erik Brødsgaard, "Management of Party Cadres in China," in Kjeld Erik Brødsgaard and Zheng Yongnian (eds.), *Bringing the Party Back in: How China is Governed* (Singapore: Eastern Universities Press, 2004), pp. 57–91.

17 For an overview on the organizational history of the CCP in Hainan, see Zhonggong zhongyang zuzhibu, Zhonggong dangshi yanjiushi, and Zhongyang dang'an guan, *Zhongguo gongchandang zuzhishi ziliao, 1921–1997, di si juan, xia* (Material on the organisational history of China's Communist Party, 1921–1997, Vol. 4, Part II) (Beijing: Zhonggong dangshi chubanshe, 2000) pp. 941–950.

18 Ibid., p. 941.

19 Ibid., pp. 946–947.

20 Ibid., pp. 942–943.

21 Ibid., pp. 944–945.

22 Ibid., pp. 947–948.

23 This section draws on Brødsgaard, "State and society in Hainan: Liao Xun's Ideas on Little Government Big Society," and Kjeld Erik Brødsgaard, "Civil Society and Democratization in China," in Margaret L. Nugent (ed.), *From Leninism to Freedom: The Challenges of Democratization* (Boulder, CO: Westview Press, 1992), pp. 231–257.

24 The reports are available in Liu, *Hainan jingji fazhan zhanlüe*.

25 "Hainan jingji fazhan zhong de zhengzhi tizhi wenti" (Questions concerning the political system in Hainan's economic development), ibid., pp. 193–223.

26 "Small government, big society" has in fact been widely used to describe the content and reach of the new institutional reform. See Beijing Xinhua Domestic Service, February 22, 1998, in *FBIS-CHI-98-061*; Beijing Xinhua Domestic Service, March 17, 1998, in *FBIS-CHI-98-068*. See also the above-mentioned work edited by Wu Jie, which explicitly argues that "small government, big society" should form the model for present administrative reforms; Wu Jie, *Zhongguo zhengfu yu jigou gaige*, Vol. I, p. 257.

27 Liao Xun, *Makesi Engesi "xiao zhengfu" sixiang yu dangdai jingji gaige* (Marx' and Engels' thoughts on "Small government" and current economic reform) (Haikou: Hainan Renmin chubanshe, 1988). The book was actually an expanded and revised version of a paper from July 1986.

28 Liao Xun, *Xiao zhengfu da shehui – Hainan xin tizhi de lilun yu shijian.*

29 Ibid., p. 235.

30 See article on Thomas Jefferson in *Hainan tequ bao* (Hainan Special Zone News), August 31, 1993.

31 For a discussion of this aspect of Liao Xun's thought see also Brødsgaard, "State and Society in Hainan," p. 199.

32 In line with other Chinese political scientists and theorists Liao Xun often uses government (*zhengfu*) and state (*guojia*) synonymously.

33 Liao Xun develops his ideas in an interview in *Hainan kaifa bao* (Hainan Development Journal). See Hong Xiaobo, "Da gouxiang, da jiyu, da chaotou: 'xiao zhengfu da shehui' de tiqi" (A good idea, a good opportunity, and a widespread tendency: a talk about "Small government big society"), *Hainan kaifa bao*, April 8, 1988.

34 Ru Xin (ed.), *"Xiao zhengfu da shehui" de lilun yu shijian: Hainan zhengzhi tizhi yu shehui tizhi gaige yanjiu*, p. 77.

35 Ibid., p. 54.

36 The following section is based on Brødsgaard, "Institutional Reform and the Bianzhi System in China," especially pp. 382–384.

37 As a recent study has pointed out: "Whatever organs the upper governments have, lower governments also have." See Mao Shoulong, Li Zhutian, *Sheng zhengfu guanli* (Provincial government administration), Vol. 3, in Xie Qingkui (ed.), *Zhongguo difang zhengfu guanli cong shu* (Encyclopedia of the administration of local government in China) (Beijing: Zhongguo guangbo dianshe chubanshe, 1998), p. 93.

38 The problem is discussed by Xu Shijie, former Party Secretary of Hainan Province, in an interview carried in *Qiushi*. See Liu Wei, "Hainan sheng: 'xiao zhengfu, da shehui' de gouxiang he shishe" (Hainan Province: The concept of "little government, big society" and its Implementation, *Qiushi*, No. 6 (1989), pp. 9–12.

39 Ru Xin, *"Xiao zhengfu da shehui" de lilun yu shijian*, p. 56.

40 Ibid., p. 78.

41 Ibid., p. 57.

42 Ibid., p. 58.

43 See Wang Ruolin (ed.), *Hainan jianli shehuizhuyi shichang jingji tizhi de shijian* (The practice of establishing a socialist market system in Hainan) (Beijing: Shehui kexue wenxian chubanshe, 1997), pp. 52–53.

44 *Hainan nianjian 1996*, Vol. 1, p. 28.

45 *Chaobian* is the Chinese way of expressing the tendency to employ more personnel than the fixed quota of personnel (*bianzhi*) allows for. Brødsgaard, "Institutional Reform and the *Bianzhi* System in China."

46 Many of the extra people were not recruited and hired through regular channels, but by local leaders who simply wrote on a piece of paper (*pi tiao*), instructing the local finance department to pay a salary to the person in question. In fact, more than a thousand people were hired by this kind of *pi tiao*. Many used connections to tamper with their personal files (*dang'an*) and some were even given false cadre status and never went through the formal procedures of selection, recommendation and appointment. The whole affair was uncovered when the county no longer could afford the salaries and went bankrupt. It took the provincial authorities about a year to clear up the mess. See *Hainan Ribao*, July 6, July 7, July 8, July 9, July 12, and 14, 1998. See also Zhonggong Hainan sheng wei zuzhibu ketizu (The Taskforce of the Hainan Provincial Party Committee's Organization Department), "Shi xian jigou gaige de yici chenggong shijian" (A successful experience of city and county institutional reform), *Hainan Ribao*, May 12, 1999.

47 The following discussion of party and administrative organs in Yangpu and how they function and interact is based on my chapter "Bianzhi and Cadre Management in China: The Case of Yangpu."

48 The nomenklatura (*mingcheng*) of various administrative organs is difficult to translate into English. In the central bureaucracy the department level is called *ju* or *si* in Chinese. At the provincial level department is usually rendered as *ju* or *ting*. These organs are ranked equal in the administrative hierarchy. The level below the department level is the division level which is called *chu* in Chinese. In the Yangpu case, the functional departments below the management department were named *ju*, even though the nomenklatura of the provincial authorities had placed them at the *chu* level. In order to avoid much confusion in the following, we will render the top administrative organ in Yangpu, the *guanli ju*, as bureau and the seven subordinate functional *ju* as departments. The management bureau is a department which is part of the Hainan provincial government and thus has *ting* rank, whereas the functional departments are part of the local Yangpu administration and are subordinated to the management bureau and therefore have division rank.

49 This means that the functional departments exercise professional leadership (*yewu zhuguan*) rather than administrative leadership (*xingzheng zhuguan*) over the *fading jigou*. For this distinction between "professional relations" and "leadership relations," see also Huang Yasheng, "Administrative Monitoring in China," *The China Quarterly*, No. 143 (September 1995): 814–823.

50 As has been noted elsewhere, government agencies in China usually form a complex of multiple organizations linked closely together in a "system." See Foster, "Embedded within state Agencies." In the Yangpu case, the administrative set up consists of the management bureau (with its general office) and the seven functional departments. However, in order to generate more funds and personnel, a number of service units, in this case called *fading jigou*, have been established. They receive a service *bianzhi* from the Yangpu management bureau. For example, the department of economic development "guides and supervises" the work of the Industrial and Commercial Service Center, which has a *bianzhi* of 15. In practice this means that the center spends considerable time on work actually belonging to the department of economic development. Similarly, the department of planning and development oversees the work of the Planning and Development Service Center, which also has been allocated a *bianzhi* of 15. What this means is that by way of these *fading jigou*, the Yangpu administrative set up has created an organizational complex which expands its reach considerably. However, since the *fading jigou* are part of the *shiye danwei bianzhi* in Yangpu, this arrangement blurs the actual number of persons and resources engaged in administrative work.

51 This is based on Brødsgaard, "Bianzhi and Cadre Management in China."

52 "Material concerning the administrative setup in Yangpu province" (no title, Yangpu, April 1996).

53 Ibid., p. 10.

54 Works on the Chinese civil service system include Kjeld Erik Brødsgaard, "The Civil Service System in China," *Newsletter of the Asia Research Center*, Copenhagen Business School, No. 11 (2002), pp. 3–10; John P. Burns, "Chinese Civil Service Reform: the 13th Party Congress Proposals," *The China Quarterly*, No. 120 (December 1989): 739–770; Jean-Pierre Cabestan, "The Reform of the Civil Service," *China News Analysis*, No. 1437 (15 June 1991): 1–8; King K. Tsao, "Civil Service Reform," in *China Review 1993* (Hong Kong: The Chinese University Press, 1993), pp. 5.1–5.23; King W. Chou, "The Politics of Performance Appraisal," in Miriam K. Mills and Stuart S. Nagel (eds.), *Public Administration in China* (Westport, CT: Greenwood Press, 1993), pp. 105–122; Tao-chiu Lam and Hon S. Chan, "The Civil Service System: Policy Formulation and Implementation," in Lo Chin Kin, Suzanne Pepper and Tsui Kai Yuen (eds.), *China Review 1995* (Hong Kong: The Chinese University Press, 1995): 2.1–2.43.

55 See Zhao Ziyang, "Yanzhe you Zhongguo tese de shehuizhuyi daolu qianjin" (Advance Along the Road of Socialism with Chinese Characteristics), *Renmin ribao*, November 4, 1987.

56 The decision in August 1988 to abolish party core groups was revoked in mid-August 1989. See Burns, "Chinese Civil Service Reforms: The 13th Party Congress Proposals."

57 "Guojia gongwuyuan zanxing tiaoli" (Provisional civil service regulations), *Zhonghua Renmin Gongheguo guowuyuan ling*, No. 125 (August 14, 1993), in *Renshi gongzuo wenjian xuanji*, Vol. 16 (Zhongguo renshi chubanshe, 1994), pp. 5–21.

58 Thus, there are detailed regulations concerning appointment, training, evaluation, "avoidance," etc. corresponding to the national system. See "Yangpu jingji kaifaqu guojia gongwuyuan zhiwei fenlei shixing banfa" (Trial methods concerning the categorization of positions) (Yangpu, n.d.); "Yangpu jingji kaifaqu guojia gongwuyuan luyong shixing banfa" (Trial methods concerning employment of

state civil servants in Yangpu Economic Development Zone) (Yangpu, n.d.); "Yangpu jingji kaifaqu guojia gongwuyuan kaohe shixing banfa" (Trial methods concerning the appraisal of state civil servants in Yangpu Economic Development Zone) (Yangpu, n.d.); "Yangpu jingji kaifaqu guojia gongwuyuan peixun shixing banfa" (Trial methods concerning the training of state civil servants in Yangpu Economic Development Zone) (Yangpu, n.d.); "Yangpu jingji kaifaqu guojia gongwuyuan renmian shengjiang shixing banfa" (Trial methods concerning appointing/dismissing and promoting/demoting state civil servants in Yangpu Economic Development Zone) (Yangpu, n.d.).

59 See Brødsgaard, "Civil Service Reform: Changing the Bianzhi."

60 "Yangpu gongweihui zhidu" (Yangpu working committee system) (n.p., n.d.).

61 See Yangpu jingji kaifa qu xingzheng tizhi yu jigou shidian keti diaoyan zu (Yangpu Economic Development Zone's research and investigation group for administrative systemic and organizational experiments), "Yangpu jingji kaifa qu xingzheng guanli tizhi he jigou gaige shidian fangan" (Draft concerning experiments with administrative management systems and organs in Yangpu Economic Development Zone) (Yangpu, July 1996).

62 See "Guanyu yinfa 'kaifa qu xingzheng guanli tizhi he jigou gaige shidian gongzuo yijian' de tongzhi" (Concerning Distribution of Circular on Opinions Concerning Experimental Work with Administrative Management Systems and Organs in Development Zones), *Zhongfa*, No. 5 (1995).

63 "Yangpu jingji kaifa qu xingzheng guanli tizhi he jigou gaige shidian fangan," p. 7.

64 Personal notes based on a visit by the author in December 2004.

65 See Ru Xin, *"Xiao Zhengfu da shehui" de lilun yu shijian*. This volume is the third of three major studies on Hainan's political, economic and social affairs conducted by research teams from CASS and headed by CASS deputy directors. The others are the above-mentioned 1987 report by Liu Guoguang's group and Wang, *Hainan jianli shehui zhuyi shichang jingji tizhi de shijian*.

66 Brødsgaard, "Institutional Reform and the Bianzhi System in China," pp. 101–103.

67 See Feng Chongyi, "Reluctant Withdrawal of Government and Restrained Development of Society."

68 This section is based on Brødsgaard, "Institutional Reform and the Bianzhi System in China." See also Liu Zhifeng (ed.), *Di qici geming: 1998 Zhongguo zhengfu jigou gaige beiwanglü* (The seventh revolution: a memorandum of the 1988 reform of the organs of the Chinese government) (Beijing: Jingji ribao chubanshe, 1998). On the 1998 institutional reforms, see also Sebastian Heilmann, "Die neue Chinesische Regierung: Abschied vom sozialistischen Leviathan?" (The new Chinese government: departure from socialist leviathan?) *China aktuell* (March 1998), pp. 277–287; and Liu Jen-kai, "Die Reorganisation von Ministerien und Kommissionen im Verlauf der Strukturreformen des Staatrats VR China" (The reorganization of ministries and commissions during structural reforms of the state council of the people's republic of China), *China aktuell* (Juli 2001), pp. 762–780.

69 As mentioned above, the 1988 round of institutional reform was closely associated with Zhao Ziyang's attempts to reduce the role of the party in state administration. According to these plans, state and party cadres should be classified into two categories, a political-administrative category and a professional work category. Only the former category comprising some 500,000 of the cadre corps was to be managed by the party. The rest was to be managed by a newly formed Ministry of Personnel (*renshibu*). Zhao Ziyang also proposed to abolish party core groups (*dangzu*) in government offices and departments. See Zhao Ziyang, "Yanzhe you Zhongguo tese de shehuizhuyi daolu qianjin." In the wake of the Tiananmen debacle, the plan to reduce the role of the party in government

agencies was never carried out, and the civil service system established in 1993 was a strongly modified version of Zhao's proposal.

8 "Big society" in Hainan

1 Ru Xin, *"Xiao Zhengfu da shehui" de lilun yu shijian*, p. 274.

2 Liao Xun, *Xiao Zhengfu, da shehui – Hainan xin tizhi de lilun yu shijian*, p. 247.

3 Ibid., pp. 252–254.

4 See Liao Xun, "Tongye gonghui – 'xiao zhengfu'yu 'da shehui' bu ke queshao de zhongjie," (Trade association – an intermediary organization "small government" and "Big Society" cannot lack), *Hainan Tequ Bao*, March 1, 1994.

5 Ru Xin, *"Xiao Zhengfu da shehui" de lilun yu shijian*, p. 280.

6 For a general discussion on variations in state involvement, see Peter Evans, *Embedded Autonomy* (Princeton, New Jersey: Princeton University Press, 1995), pp. 10ff.

7 Different concepts have been used to render *shetuan* into English. Minxin Pei uses the term "civic associations" and Tony Saich uses "social organizations." See Minxin Pei, "Chinese Civic Associations: An Empirical Analysis," *Modern China* 24(3) (July 1998): 285–318; and Saich, "Negotiating the State: The Development of Social Organizations in China." I have retained the term I have used on an earlier occasion. See Brødsgaard, "State and Society in Hainan: Liao Xun's Ideas on 'Little Government Big Society,'" pp. 208–212.

8 See Hainan sheng minzheng ting shetuan dengji guanlichu (ed.), *Hainan sheng shehui tuanti* (Social organizations in Hainan Province) (Haikou, n.d.).

9 Ru Xin, *"Xiao Zhengfu da shehui" de lilun yu shijian*, pp. 281–284.

10 Ibid., p. 284.

11 Ibid., p. 285.

12 Admittedly, civil society is a complicated concept with many connotations. It is possible to locate at least six different discourses:

1. the traditional with strong roots in classical Greek philosophy;
2. the classical–liberal associated with liberal thinkers such as John Locke and John Stuart Mill;
3. the Hegelian;
4. Marxian;
5. Gramscian;
6. and a newer Havelian, which takes its inspiration from the East European and Soviet transition to post-communism.

See Brødsgaard, "Civil Society and Democratization." Other Western discussions on the concept of civil society in relation to China include Bill T. Rowe, "The Public Sphere in Modern China," *Modern China* 16(3) (July 1990): 309–329; David Strand, "Protest in Beijing: Civil Society and Public Sphere in China," *Problems of Communism* 39(3) (May–June 1990): 1–19; Timothy Cheek, "From Market to Democracy in China: Gaps in the Civil Society Model," in Timothy Cheek and Juan D. Lindau (eds.), *Market Economics and Political Change: Comparing China and Mexico* (Lanham, MD: Rowman and Littlefield, 1998): pp. 219–252; Tom B. Gold, "Bases for Civil Society in Reform China," in Brødsgaard and Strand, *Reconstructing Twentieth-Century China*, pp. 163–188; Brook and Frolic (eds.), *Civil Society in China*. For a review of the literature and the controversies surrounding the debate on the concept, see also "Symposium: 'Public Sphere'/'Civil Society' in China?," *Modern China* 19(2) (April 1993): and Gu Xin, "A Civil Society and Public Sphere in Post-Mao China? An Overview of Western Publications," *China Information* 8(3) (Winter 1993–94): 38–52. For a Chinese introduction to the Western discussion, see Zhang Jing, *Fatuan zhuyi* (Corporatism)

(Beijing: Zhongguo shehuikexue chubanshe, 1998). For an introduction to the Chinese discourse on civil society, see Shu-Yun Ma, "The Chinese Discourse on Civil Society," *The China Quarterly*, No. 137 (March 1994): 180–193. For Chinese views, see Deng Zhenglai and Jing Yuejing, "Building Civil Society in China," *Zhongguo shehui kexue jikan* (*China Social Sciences Quarterly*), No. 1 (1992) and a series of articles by Xu Guodong: "Shimin shehui yu shimin fa: minfa de diaozheng yanjiu" (Civil society and civil law), *Faxue Yanjiu* (*Studies in Law*), No. 4 (1994): 3–9; "Lun shiminfa zhong de shimin" (On the citizen in the citizen code), *Tianjin shehui kexue* (*Tianjin Social Science Review*), No. 6 (1994): 94–100; and "Minfadian yu guanli kongzhi" (The Civil Code and Checks on Power), *Tianjin shehui kexue* (*Tianjin Social Science Review*), No. 1 (1995): 64–69.

13 See White, Howell, and Shang, *In Search of Civil Society: Market Reform and Social Change in Contemporary China*; and Brødsgaard, "State and Society in Hainan: Liao Xun's ideas on 'Small Big, Society.'" For a recent study on the relationship between non-governmental organizations and the possible emergence of a civil society in China, see Qiushi Ma, *Non-Governmental Organizations in Contemporary China: Paving the Way to Civil Society?* (London: Routledge, 2006).

14 For the most detailed work on Chinese social associations see Wang Ying, Zhe Xiaoye, and Sun Bingyao, *Shehui zhongjian ceng: gaige yu Zhongguo de shetuan zuzhi* (Social intermediate strata: reform and the formation of social associations in China) (Beijing: Zhongguo fazhan chubanshe, 1993). For a recent study discussing the formation of social associations in terms of state–society interpenetration, see Saich, "Negotiating the State."

15 See Hainan nianjian 1998, pp. 10–107.

16 See Francis Fukuyama, *State-Building: Governance and World Order in the Twenty-First Century* (London: Profile Books, 2004).

17 *Zhongguo tongji nianjian 2005*, p. 130.

18 See e.g. Hu Angang, Wang Shaoguang and Kang Shaoguang, *Zhongguo diqu chaju baogao* (Report on regional disparities in China) (Shenyang: Liaoning renmin chubanshe, 1997).

19 *Zhongguo tongji nianjian 2005*, p. 135.

20 *Hainan tongji nianjian 2005*, p. 155.

21 Kjeld Erik Brødsgaard, "Jiang Finally Steps Down: A Note on Military Personnel Changes and the CCP's Governing Capacity," *The Copenhagen Journal of Asian Studies*, No. 19 (2004): 82–89.

22 Wen Jiabao, "Zhengfu gongzuo baogao – 2005 nian 3 yue 5 ri zai dishijie quanguo renmin daibiao dahui disanci huiyishang" (Government report – delivered on March 5, 2005 at the Third Session of the 10th National People's Congress) (htpp://gov.people.com.cn/GB/46733/3499652.html).

23 "Zhonghua Renmin Gongheguo guowuyuan fa" (The civil servants' law of the People's Republic of China), *Renmin ribao*, May 8, 2005.

24 See "Zhengfu xinxi gongkai tiaoli" (Regulations on publicizing government information), *Xinhua News*, April 24, 2007.

25 For the meaning and explanation of this slogan see the "Communique of the Third Plenary Session of the 16th Central Committee of the Chinese Communist Party," *Xinhua News*, October 14, 2003.

26 See Commentator's article, *Renmin ribao*, November 5, 2003.

27 See "Zhonghua Renmin Gongheguo guomin jingji he shehui fazhan dishi yige wunian guihua gangyao" (The Eleventh Five-Year Programme for the People's Republic of China's economic and social development), *Renmin ribao*, March 17, 2006.

28 See "Zhonggong Zhongyang guanyu goujian shehuizhuyi hexie shehui ruogan zhongda wenti de jueding" (Decision of the Central Committee of the Chinese

Communist Party concerning some important questions in building a socialist harmonious society) (Beijing: Renmin chubanshe, 2006).

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9 Hainan and regional cooperation

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12 www.pprd.org.cn/ziliao/gonggao/200701/t20070116_13855.htm

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14 Ibid., p. 466.

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10 Hainan and the South China Sea

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4 Ibid. According to Valencia estimates, oil and natural gas reserves in the Spratley range from 1–17.7 billion tons. See Valencia, *China and the South China Sea Disputes*, p. 10.

5 Jianming Shen, "International Law Rules and Historical Evidences Supporting China's Title to the South China Sea Islands," *Hastings Int'l & Comp. L. Rev* 21 (1997): 1–75.

6 The most authoritative study on the maritime boundary line in the South China Sea is Zou Keyuan, "The Chinese Traditional Martime Boundary Line in the South China Sea and its Legal Consequences for the Resolution of the Dispute over the Spratley Islands," *The International Journal of Marine and Coastal Law* 14(1) (March 1999): 27–55.

7 Ibid., p. 34.

8 The southern most point of the line is still at Zengmu Ansha (James Shoal), it runs along the 200-metre isobarth and constitutes a middle line between the islands inside the line and the country surrounding the South China Sea.

9 Taiwan has consistently agreed with the mainland Chinese position on the South China Sea and thus has advanced the same sweeping claims. Taiwan has occupied Itu Aba Island, the biggest island in the Spratleys, and has built some fishing facilities as well as a light house on the island. See Valencia, *China and the South China Sea Disputes*, p. 39.

10 The full text of UNCLOS can be found at htpp://www.edu.departments/fletscher/multi/sea.htlm.

11 UNCLOS 121 (3).

12 See Wu Shicun and Ren Huaifeng, "More Than a Declaration: A Commentary on the Background and the Significance of the Declaration on the Conduct of the Parties in the South China Sea," *Chinese Journal of International Law* 2(1) (2003): 311–320.

13 The Pratas Islands are under firm Taiwanese control and the Paracel Islands are under mainland Chinese control, although contested by Vietnam. The Macclesfield Bank is claimed by China including Taiwan.

14 Saleem, "Spratley Island Dispute," p. 541.

15 In a China Sea Pilot published by the British Admiralty in 1937 the Paracel Islands are described as "an extensive group of low coral islands and reefs lying on the western side of the main route between Singapore and Hong Kong, about 370 miles north-eastward of Pulau Cecir de Mer and about 165 miles off the

coast of Annam." See *China Sea Pilot* (London: Hydrographic Department Admiralty, 1937). Cited after *Nanhai zhudao diming ziliao huibian* (Collection of material on the local names of the island in the South China Sea) (Guangzhou: Guandong sheng ditu chubanshe, 1987), p. 323.

16 Valencia, *China and the South China Sea Disputes*, p. 32. Apparently, the Chinese move into the Paracels was prompted by geostrategic considerations. The Chinese were worried that the imminent North Vietnamese take over of South Vietnam would strengthen Soviet influence in the region. In order to avoid a possible future Soviet naval presence in the Paracels, China decided to consolidate control over the archipelago. See Boothroyd, "Owning the Island: China's Move into the South China Sea," p. 24.

17 The 1937 survey of the area by the British Admiralty names the Spratley Islands "dangerous ground." The islands are described as being situated on the eastern side of the main route from Singapore to Hong Kong and "vessels bound from Singapore to Hong Kong should not attempt to pass between the banks." The Admiralty also mentions that parts of the the islands of "Dangerous Ground" are visited by Hainan fishermen. They arrive in December or January and leave again at the beginning of the southwest monsoon. See *Nanhai zhudao diming ziliao huibian*, p. 333.

18 Cecilie Figenschou Bakke, "Subregional Co-Operation in the Sino-Vietnamese Borderland: Problems and Prospects" (Dissertation and Theses No. 10/2002, Center for Development and the Environment, University of Oslo), p. 53.

19 Ibid., p. 52.

20 Valencia, *China and the South China Sea Disputes*, p. 34.

21 Zou Keyuan, "The Traditional Martime Boundary Line in the South China Sea and Its Legal Consequences for the Resolution of the Dispute over the Spratley Islands," p. 36.

22 See Zou Keyuan, "Gulf of Tonkin," *The International Journal of Marine and Coastal Law* 17(1) (January 2002): 127–148. The agreement was ratified by the Chinese in December 2003.

23 See Zhongguo Hainan beibu wan yanjiu suo (ed.), *1995 Huan beibu wan jingji fazhan baogao* (1995 Development Report on Economy of the Gulf of Tonkin) (Haikou: Hainan chuban gongsi, 1995); Zhongguo Hainan beibu wan yanjiu suo (ed.), *1996 Huan beibu wan jingji fazhan baogao* (1996 Development Report on Economy of the Gulf of Tonkin) (Haikou: Hainan chuban gongsi, 1995); Zhongguo Hainan beibu wan yanjiu suo (ed.), *1997 Huan beibu wan jingji fazhan baogao* (1997 Development Report on Economy of the Gulf of Tonkin) (Haikou: Hainan chuban gongsi, 1995).

24 Bakke, *Subregional Co-operation in the Sino-Vietnamese Borderland*, p. 70.

25 See Ang Cheng Guan, "The South China Sea Dispute Revisited," Singapore Institute of Defence and Strategic Studies, No. 4 (August 1999).

26 Valencia, *China and the South China Sea Disputes*, p. 44.

27 Cited after Ang Cheng Guan, "The South China Sea Dispute Revisited," p. 15.

28 Ibid., p. 23.

29 Joint Communique, 25th ASEAN Ministerial Meeting, Manila, Philippines, July 21–22, 1992.

30 Zou Keyuan, "China's Response to the Code of Conduct in the South China Sea" (Unpublished Paper, n.d.).

31 See Wu Shicun and Ren Huaifeng, "More Than a Declaration: A Commentary on the Background and the Significance of the Declaration on the Conduct of the Parties in the South China Sea," pp. 315–316.

32 The text is avalilable at the ASEAN website <htpp:/www.aseansec.org/13163.htm>. The meeting had primarily been convened to sign the China ASEAN Free Trade Agreement.

33 The Chinese do not occupy the largest number of outposts in the Spratleys. Vietnam is in fact the major occupant, followed by Malaysia. Taiwan occupies the largest of the islands, Itu Aba, where it has stationed troops. See Ang Cheng Guan, "The South China Sea Dispute Revisited," p. 20.

34 On the activist turn in China's foreign policy, see Kjeld Erik Brødsgaard and Nis Høyrup Christensen, "Sino-US Relations after September 11: Background and Prospects," *Daxiyangguo: Revista Portuguesa de Estudos Asiáticos* 2(4) (2003): 27–46.

35 See Susan Lawrence et al., "How to Start a Cold War," *Far Eastern Economic Review* (April 2001): 14–16.

36 *Beijing Review* (April 19, 2001): 10.

37 See *Xinhua News Agency* in *China Daily*, April 2001.

38 See Albert S. Yee, "Semantic Ambiguity and Joint Declarations in the Hainan Negotiations," *China: An International Journal* 2(1) (March 2004): 53–82.

39 Boothroyd, "Owning the Island: China's Move into the South China Sea," p. 113.

40 Daojiong Zha, "Localizing the South China Problem: the Case of Hainan," *The Pacific Review*: 583.

41 Ibid., p. 582.

42 Ibid., p. 587.

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